Capital

Karl Marx

Introduction

Das Kapital or *Capital* by Karl Marx exists as an opposite paradigm to free market economics. Both Paradigms have academics who have built subsequent theories to support their views.

Today most modern markets operate as a mixed economy, that is capitalistic, tempered with ideas to promote the social welfare, not just production and allocation effciency. The political pendulum shifts one way or the other depending on the collective unconsciousness of the time.

I recommend you read the original theories, of the great economists of the past, like Marx. Reading these classics, will always have more power than a secondary source interpretation.

Try not to see the theories of Karl Marx as right or wrong, but rather one of the great books of the world. Understand Marx in the context of his world and try to determine what theory is relevant in our time.

Who knows you might discover some idea or insight not yet uncovered in the original sources.

Do not feel obligated to read the book cover to cover, rather do as I, dive into a chapter or section that interest you and work your way around from there.

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Saint Augustine, Florida 2017

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Volume I. The Process of Capitalist Production.

Book I. Capitalist Production.

PART I. COMMODITIES AND MONEY.

Part I,

Volume I Chapter I COMMODITIES.

SECTION 1.‘THE TWO FACTORS OF A COMMODITY: USE-VALUE AND VALUE (THE SUBSTANCE OF VALUE AND THE MAGNITUDE OF VALUE).

I.I.1

THE wealth of those societies in which the capitalist mode of production prevails, presents itself as "an immense accumulation of commodities,"*10 its unit being a single commodity. Our investigation must therefore begin with the analysis of a commodity.

I.I.2

A commodity is, in the first place, an object outside us, a thing that by its properties satisfies human wants of some sort or another. The nature of such wants, whether, for instance, they spring from the stomach or from fancy, makes no difference.*11 Neither are we here concerned to know how the object satisfies these wants, whether directly as means of subsistence, or indirectly as means of production.

I.I.3

Every useful thing, as iron, paper, &c., may be looked at from the two points of view of quality and quantity. It is an assemblage of many properties, and may therefore be of use in various ways. To

discover the various use of things is the work of history.*12 So also is the establishment of socially-recognised standards of measure for the quantities of these useful objects. The diversity of these measures has its origin partly in the diverse nature of the objects to be measured, partly in convention.
I.I.4

The utility of a thing makes it a use-value.*13 But this utility is not a thing of air. Being limited by the physical properties of the commodity, it has no existence apart from that commodity. A commodity, such as iron, corn, or a diamond, is therefore, so far as it is a material thing, a use-value, something useful. This property of a commodity is independent of the amount of labour required to appropriate its useful qualities. When treating of use-value, we always assume to be dealing with definite quantities, such as dozens of watches, yards of linen, or tons of iron. The use-values of commodities furnish the material for a special study, that of the commercial knowledge of commodities.*14 Use-values become a reality only by use or consumption: they also constitute the substance of all wealth, whatever may be the social form of that wealth. In the form of society we are about to consider, they are, in addition, the material depositories of exchange value.
I.I.5

Exchange value, at first sight, presents itself as a quantitative relation, as the proportion in which values in use of one sort are exchanged

for those of another sort,*15 a relation constantly changing with time and place. Hence exchange value appears to be something accidental and purely relative, and consequently an intrinsic value, i.e., an exchange value that is inseparably connected with, inherent in commodities, seems a contradiction in terms.*16 Let us consider the matter a little more closely.

I.I.6

A given commodity, e.g., a quarter of wheat is exchanged for x blacking, y silk, or z gold, &c.‘in short, for other commodities in the most different proportions. Instead of one exchange value, the wheat has, therefore, a great many. But since x blacking, y silk, or z gold, &c., each represent the exchange value of one quarter of wheat, x blacking, y silk, z gold, &c., must as exchange values be replaceable by each other, or equal to each other. Therefore, first: the valid exchange values of a given commodity express something equal; secondly, exchange value, generally, is only the mode of expression, the phenomenal form, of something contained in it, yet distinguishable from it.

I.I.7

Let us take two commodities, e.g. corn and iron. The proportions in which they are exchangeable, whatever those proportions may be, can always be represented by an equation in which a given quantity of corn is equated to some quantity of iron: e.g., 1 quarter corn=x cwt.

iron. What does this equation tell us? It tells us that in two different things‘in 1quarter of corn and x cwt. of iron, there exists in equal quantities something common to both. The two things must therefore be equal to a third, which in itself is neither the one nor the other. Each of them, so far as it is exchange value, must therefore be reducible to this third.
I.I.8

A simple geometrical illustration will make this clear. In order to calculate and compare the areas of rectilinear figures, we decompose them into triangles. But the area of the triangle itself is expressed by something totally different from its visible figure, namely, by half the product of the base into the altitude. In the same way the exchange values of commodities must be capable of being expressed in terms of something common to them all, of which thing they represent a greater or less quantity.
I.I.9

This common "something" cannot be either a geometrical, a chemical, or any other natural property of commodities. Such properties claim our attention only in so far as they affect the utility of those commodities, make them use-values. But the exchange of commodities is evidently an act characterised by a total abstraction from use-value. Then one use-value is just as good as another, provided only it be present in sufficient quantity. Or, as old Barbon says, "one sort of

wares are as good as another, if the values be equal. There is no difference or distinction in things of equal value.... An hundred pounds' worth of lead or iron, is of as great value as one hundred pounds' worth of silver or gold."*17 As use-values, commodities are, above all, of different qualities, but as exchange values they are merely different quantities, and consequently do not contain an atom of use-value.

I.I.10

If then we leave out of consideration the use-value of commodities, they have only one common property left, that of being products of labour. But even the product of labour itself has undergone a change in our hands. If we make abstraction from its use-value, we make abstraction at the same time from the material elements and shapes that make the product a use-value; we see in it no longer a table, a house, yarn, or any other useful thing. Its existence as a material thing is put out of sight. Neither can it any longer be regarded as the product of the labour of the joiner, the mason, the spinner, or of any other definite kind of productive labour. Along with the useful qualities of the products themselves, we put out of sight both the useful character of the various kinds of labour embodied in them, and the concrete forms of that labour; there is nothing left but what is common to them all; all are reduced to one and the same sort of labour, human labour in the abstract.

I.I.11

Let us now consider the residue of each of these products; it consists of the same unsubstantial reality in each, a mere congelation of homogeneous human labour, of labour-power expended without regard to the mode of its expenditure. All that these things now tell us is, that human labour-power has been expended in their production, that human labor is embodied in them. When looked at as crystals of this social substance, common to them all, they are‘Values.
I.I.12

We have seen that when commodities are exchanged, their exchange value manifests itself as something totally independent of their use-value. But if we abstract from their use-value, there remains their Value as defined above. Therefore, the common substance that manifests itself in the exchange value of commodities, whenever they are exchanged, is their value. The progress of our investigation will show that exchange value is the only form in which the value of commodities can manifest itself or be expressed. For the present, however, we have to consider the nature of value independently of this, its form.
I.I.13

A use-value, or useful article, therefore, has value only because human labour in the abstract has been embodied or materialised in it. How, then, is the magnitude of this value to be measured? Plainly, by

the quantity of the value-creating substance, the labour, contained in the article. The quantity of labour, however, is measured by its duration, and labour-time in its turn finds its standard in weeks, days, and hours.
I.I.14

Some people might think that if the value of a commodity is determined by the quantity of labour spent on it, the more idle and unskilful the labourer, the more valuable would his commodity be, because more time would be required in its production. The labour, however, that forms the substance of value, is homogeneous human labour, expenditure of one uniform labour-power. The total labour-power of society, which is embodied in the sum total of the values of all commodities produced by that society, counts here as one homogeneous mass of human labour-power, composed though it be of innumerable individual units. Each of these units is the same as any other, so far as it has the character of the average labour-power of society, and takes effect as such; that is, so far as it requires for producing a commodity, no more time than is needed on an average, no more than is socially necessary. The labour-time socially necessary is that required to produce an article under the normal conditions of production, and with the average degree of skill and intensity prevalent at the time. The introduction of power looms into England probably reduced by one half the labour required to weave a given quantity of yarn into cloth. The hand-loom weavers, as a matter of

fact, continued to require the same time as before; but for all that, the product of one hour of their labour represented after the change only half an hour's social labor, and consequently fell to one-half its former value.
I.I.15

We see then that that which determines the magnitude of the value of any article is the amount of labour socially necessary, or the labour-time socially necessary for its production.*18 Each individual commodity, in this connexion, is to be considered as an average sample of its class.*19 Commodities, therefore, in which equal quantities of labour are embodied, or which can be produced in the same time, have the same value. The value of one commodity is to the value of any other, as the labour-time necessary for the production of the one is to that necessary for the production of the other. "As values, all commodities are only definite masses of congealed labour-time.*20
I.I.16

The value of a commodity would therefore remain constant, if the labour-time required for its production also remained constant. But the latter changes with every variation in the productiveness of labour. This productiveness is determined by various circumstances, amongst others, by the average amount of skill of the workmen, the state of science, and the degree of its practical application, the social

organisation of production, the extent and capabilities of the means of production, and by physical conditions. For example, the same amount of labour in favourable seasons is embodied in 8 bushels of corn, and in unfavourable, only in four. The same labour extracts from rich mines more metal than from poor mines. Diamonds are of very rare occurrence on the earth's surface, and hence their discovery costs, on an average, a great deal of labour-time. Consequently much labour is represented in a small compass. Jacob doubts whether gold has ever been paid for at its full value. This applies still more to diamonds. According to Eschwege, the total produce of the Brazilian diamond mines for the eighty years, ending in 1823, had not realised the price of one-and-a-half years ' average produce of the sugar and coffee plantations of the same country, although the diamonds cost much more labour, and therefore represented more value. With richer mines, the same quantity of labour would embody itself in more diamonds and their value would fall. If we could succeed at a small expenditure of labour, in converting carbon into diamonds, their value might fall below that of bricks. In general, the greater the productiveness of labour, the less is the labour-time required for the production of an article, the less is the amount of labour crystallised in that article, and the less is its value; and vise versâ, the less the productiveness of labour, the greater is the labour-time required for the production of an article, and the greater is its value. The value of a commodity, therefore, varies directly as the quantity, and inversely as the productiveness, of the labour incorporated in it.

I.I.17

A thing can be a use-value, without having value. This is the case whenever its utility to man is not due to labour. Such are air, virgin soil, natural meadows, &c. A thing can be useful, and the product of human labour, without being a commodity. Whoever directly satisfies his wants with the produce of his own labour, creates, indeed, use-values, but not commodities. In order to produce the latter, he must not only produce use-values, but use-values for others, social use-values. Lastly, nothing can have value, without being an object of utility. If the thing is useless, so is the labour contained in it; the labour does not count as labour, and therefore creates no value.

SECTION 2.‘THE TWOFOLD CHARACTER OF THE LABOUR EMBODIED IN COMMODITIES.

I.I.18

At first sight a commodity presented itself to us as a complex of two things‘use-value and exchange-value. Later on, we saw also that labour, too, possesses the same two-fold nature; for, so far as it finds expression in value, it does not possess the same characteristics that belong to it as a creator of use-values. I was the first to point out and to examine critically this two fold nature of the labour contained

in commodities. As this point is the pivot on which a clear comprehension of political economy turns, we must go more into detail.

I.I.19

Let us take two commodities such as a coat and 10 yards of linen, and let the former be double the value of the latter, so that, if 10 yards of linen=W, the coat=2W.

I.I.20

The coat is a use-value that satisfies a particular want. Its existence is the result of a special sort of productive activity, the nature of which is determined by its aim, mode of operation, subject, means, and result. The labour, whose utility is thus represented by the value in use of its product, or which manifests itself by making its product a use-value, we call useful labour. In this connexion we consider only its useful effect.

I.I.21

As the coat and the linen are two qualitatively different use-values, so also are the two forms of labour that produce them, tailoring and weaving. Were these two objects not qualitatively different, not produced respectively by labour of different quality, they could not stand to each other in the relation of commodities. Coats are not

exchanged for coats, one use-value is not exchanged for another of the same kind.
I.I.22

To all the different varieties of values in use there correspond as many different kinds of useful labour, classified according to the order, genus, species, and variety to which they belong in the social division of labour. This division of labour is a necessary condition for the production of commodities, but it does not follow conversely, that the production of commodities is a necessary condition for the division of labour. In the primitive Indian community there is social division of labour, without production of commodities. Or, to take an example nearer home, in every factory the labour is divided according to a system, but this division is not brought about by the operatives mutually exchanging their individual products. Only such products can become commodities with regard to each other, as result from different kinds of labour, each kind being carried on independently and for the account of private individuals.
I.I.23

To resume, then: In the use-value of each commodity there is contained useful labour, i.e., productive activity of a definite kind and exercised with a definite aim. Use-values cannot confront each other as commodities, unless the useful labour embodied in them is qualitatively different in each of them. In a community, the produce of

which in general takes the form of commodities, i.e., in a community of commodity producers, this qualitative difference between the useful forms of labour that are carried on independently by individual producers, each on their own account, develops into a complex system, a social division of labour.
I.I.24

Anyhow, whether the coat be worn by the tailor or by his customer, in either case it operates as a use-value. Nor is the relation between the coat and the labour that produced it altered by the circumstance that tailoring may have become a special trade, an independent branch of the social division of labour. Wherever the want of clothing forced them to it, the human race made clothes for thousands of years, without a single man becoming a tailor. But coats and linen, like every other element of material wealth that is not the spontaneous produce of nature, must invariably owe their existence to a special productive activity, exercised with a definite aim, an activity that appropriates particular nature-given materials to particular human wants. So far therefore as labour is a creator of use-value, is useful labour, it is a necessary condition, independent of all forms of society, for the existence of the human race; it is an eternal nature-imposed necessity, without which there can be no material exchanges between man and Nature, and therefore no life.
I.I.25

The use-values, coat, linen, &c., i.e., the bodies of commodities, are combinations of two elements‘matter and labour. If we take away the useful labour expended upon them, a material substratum is always left, which is furnished by Nature without the help of man. The latter can work only as Nature does, that is by changing the form of matter.*21 Nay more, in this work of changing the form he is constantly helped by natural forces. We see, then, that labour is not the only source of material wealth, of use-values produced by labour. As William Petty puts it, labour is its father and the earth its mother.
I.I.26

Let us now pass from the commodity considered as a use-value to the value of commodities.
I.I.27

By our assumption, the coat is worth twice as much as the linen. But this is a mere quantitative difference, which for the present does not concern us. We bear in mind, however, that if the value of the coat is double that of 10 yds. of linen, 20 yds. of linen must have the same value as one coat. So far as they are values, the coat and the linen are things of a like substance, objective expressions of essentially identical labour. But tailoring and weaving are, qualitatively, different kinds of labour. There are, however, states of society in which one and the same man does tailoring and weaving alternately, in which case these two forms of labour are mere modifications of the labour

of the same individual, and not special and fixed functions of different persons; just as the coat which our tailor makes one day, and the trousers which he makes another day, imply only a variation in the labour of one and the same individual. Moreover, we see at a glance that, in our capitalist society, a given portion of human labour is, in accordance with the varying demand, at one time supplied in the form of tailoring, at another in the form of weaving. This change may possibly not take place without friction, but take place it must.
I.I.28

Productive activity, if we leave out of sight its special form, viz., the useful character of the labour, is nothing but the expenditure of human labour-power. Tailoring and weaving though qualitatively different productive activities, are each a productive expenditure of human brains, nerves, and muscles, and in this sense are human labour. They are but two different modes of expending human labour-power. Of course, this labour-power, which remains the same under all its modifications, must have attained a certain pitch of development before it can be expended in a multiplicity of modes. But the value of a commodity represents human labour in the abstract, the expenditure of human labour in general. And just as in society, a general or a banker plays a great part, but mere man, on the other hand, a very shabby part,*22 so here with mere human labour. It is the expenditure of simple labour-power, i.e., of the labour-power which, on an average, apart from any special development, exists in the

organism of every ordinary individual. Simple average labour, it is true, varies in character in different countries and at different times, but in a particular society it is given. Skilled labour counts only as simple labour intensified, or rather, as multiplied simple labour, a given quantity of skilled being considered equal to a greater quantity of simple labour. Experience shows that this reduction is constantly being made. A commodity may be the product of the most skilled labour, but its value, by equating it to the product of simple unskilled labour, represents a definite quantity of the latter labour alone.*23 The different proportions in which different sorts of labour are reduced to unskilled labour as their standard, are established by a social process that goes on behind the backs of the producers, and, consequently, appear to be fixed by custom. For simplicity's sake we shall henceforth account every kind of labour to be unskilled, simple labour; by this we do no more than save ourselves the trouble of making the reduction.
I.I.29

Just as, therefore, in viewing the coat and linen as values, we abstract from their different use-values, so it is with the labour represented by those values: we disregard the difference between its useful forms, weaving and tailoring. As the use-values, coat and linen, are combinations of special productive activities with cloth and yarn, while the values, coat and linen, are, on the other hand, mere homogeneous congelations of indifferentiated labour, so the labour

embodied in these latter values does not count by virtue of its productive relation to cloth and yarn, but only as being expenditure of human labour-power. Tailoring and weaving are necessary factors in the creation of the use-values, coat and linen, precisely because these two kinds of labour are of different qualities; but only in so far as abstraction is made from their special qualities, only in so far as both possess the same quality of being human labour, do tailoring and weaving form the substance of the values of the same articles.
I.I.30

Coats and linen, however, are not merely values, but values of definite magnitude, and according to our assumption, the coat is worth twice as much as the ten yards of linen. Whence this difference in their values? It is owing to the fact that the linen contains only half as much labour as the coat, and consequently, that in the production of the latter, labour-power must have been expended during twice the time necessary for the production of the former.
I.I.31

While, therefore, with reference to use-value, the labour contained in a commodity counts only qualitatively, with reference to value it counts only quantitatively, and must first be reduced to human labour pure and simple. In the former case, it is a question of How and What, in the latter of How much? How long a time? Since the magnitude of the value of a commodity represents only the quantity

of labour embodied in it, it follows that all commodities, when taken in certain proportions, must be equal in value.
I.I.32

If the productive power of all the different sorts of useful labour required for the production of a coat remains unchanged, the sum of the values of the coat produced increases with their number. If one coat represents x days' labour, two coats represent 2x days' labour, and so on. But assume that the duration of the labour necessary for the production of a coat becomes doubled or halved. In the first case, one coat is worth as much as two coats were before; in the second case, two coats are only worth as much as one was before, although in both cases one coat renders the same service as before, and the useful labour embodied in it remains of the same quality. But the quantity of labour spent on its production has altered.
I.I.33

An increase in the quantity of use-values is an increase of material wealth. With two coats two men can be clothed, with one coat only one man. Nevertheless, an increased quantity of material wealth may correspond to a simultaneous fall in the magnitude of its value. This antagonistic movement has its origin in the two-fold character of labour. Productive power has reference, of course, only to labour of some useful concrete form; the efficacy of any special productive activity during a given time being dependent on its productiveness.

Useful labour becomes, therefore, a more or less abundant source of products, in proportion to the rise or fall of its productiveness. On the other hand, no change in this productiveness affects the labour represented by value. Since productive power is an attribute of the concrete useful forms of labour, of course it can no longer have any bearing on that labour, so soon as we make abstraction from those concrete useful forms. However then productive power may vary, the same labour, exercised during equal periods of time, always yields equal amounts of value. But it will yield, during equal periods of time, different quantities of values in use; more, if the productive power rise, fewer, if it fall. The same change in productive power, which increases the fruitfulness of labour, and, in consequence, the quantity of use-values produced by that labour, will diminish the total value of this increased quantity of use-values, provided such change shorten the total labour-time necessary for their production; and vice versâ. I.I.34

On the one hand all labour is, speaking physiologically, an expenditure of human labour-power, and in its character of identical abstract human labour, it creates and forms the value of commodities. On the other hand, all labour is the expenditure of human labour-power in a special form and with a definite aim, and in this, its character of concrete useful labour, it produces use-values.*24

SECTION 3.‘THE FORM OF VALUE OR EXCHANGE VALUE.

I.I.35

Commodities come into the world in the shape of use-values, articles, or goods, such as iron, linen, corn, &c. This is their plain, homely, bodily form. They are, however, commodities, only because they are something twofold, both objects of utility, and, at the same, time, depositories of value. The manifest themselves therefore as commodities, or have the form of commodities, only in so far as they have two forms, a physical or natural form, and a value form.
I.I.36

The reality of the value of commodities differs in this respect from Dame Quickly, that we don't know "where to have it." The value of commodities is the very opposite of the coarse materiality of their substance, not an atom of matter enters into its composition. Turn and examine a single commodity, by itself, as we will. Yet in so far as it remains an object of value, it seems impossible to grasp it. If, however, we bear in mind that the value of commodities has a purely social reality, and that they acquire this reality only in so far as they are expressions or embodiments of one identical social substance, viz., human labour, it follows as a matter of course, that value can only manifest itself in the social relation of commodity to commodity. In fact we started from exchange value, or the exchange relation of commodities, in order to get at the value that lies hidden behind it.

We must now return to this form under which value first appeared to us.

I.I.37

Every one knows, if he knows nothing else, that commodities have a value form common to them all, and presenting a marked contrast with the varied bodily forms of their use-values. I mean their money form. Here, however, a task is set us, the performance of which has never yet even been attempted by bourgeois economy, the task of tracing the genesis of this money form, of developing the expression of value implied in the value relation of commodities, from its simplest, almost imperceptible outline, to the dazzling money form. By doing this we shall, at the same time, solve the riddle presented by money.

I.I.38

The simplest value relation is evidently that of one commodity to some one other commodity of a different kind. Hence the relation between the values of two commodities supplies us with the simplest expression of the value of a single commodity.

A. Elementary or Accidental Form of Value.

I.I.39

x commodity A=y commodity B, or

x commodity A is worth y commodity B.

20 yards of linen=1 coat, or

20 yards of linen are worth 1 coat.

1. The two poles of the expression of value: Relative form and Equivalent form.

I.I.40

The whole mystery of the form of value lies hidden in this elementary form. Its analysis, therefore, is our real difficulty.

I.I.41

Here two different kinds of commodities (in our example the linen and the coat), evidently play two different parts. The linen expresses its value in the coat; the coat serves as the material in which that value is expressed. The former plays an active, the latter a passive, part. The value of the linen is represented as relative value, or appears in relative form. The coat officiates as equivalent, or appears in equivalent form.

I.I.42

The relative form and the equivalent form are two intimately connected, mutually dependent and inseparable elements of the

expression of value; but, at the same time, are mutually exclusive, antagonistic extremes‘i.e., poles of the same expression. They are allotted respectively to the two different commodities brought into relation by that expression. It is not possible to express the value of linen in linen. 20 yards of linen=20 yards of linen is no expression of value. On the contrary, such an equation merely says that 20 yards of linen are nothing else than 20 yards of linen, a definite quantity of the use-value linen. The value of the linen can therefore be expressed only relatively‘i.e., in some other commodity. The relative form of the value of the linen pre-supposes, therefore, the presence of some other commodity‘here the coat‘under the form of an equivalent. On the other hand, the commodity that figures as the equivalent cannot at the same time assume the relative form. That second commodity is not the one whose value is expressed. Its function is merely to serve as the material in which the value of the first commodity is expressed.
I.I.43

No doubt, the expression 20 yards of linen=1 coat, or 20 yards of linen are worth 1 coat, implies the opposite relation: 1 coat=20 yards of linen, or 1 coat is worth 20 yards of linen. But, in that case, I must reverse the equation, in order to express the value of the coat relatively; and, so soon as I do that the linen becomes the equivalent instead of the coat. A single commodity cannot, therefore,

simultaneously assume, in the same expression of value, both forms. The very polarity of these forms makes them mutually exclusive.
I.I.44

Whether, then, a commodity assumes the relative form, or the opposite equivalent form, depends entirely upon its accidental position in the expression of value‘that is, upon whether it is the commodity whose value is being expressed.

2. The Relative form of value.
(a.) The nature and import of this form.

I.I.45

In order to discover how the elementary expression of the value of a commodity lies hidden in the value relation of two commodities, we must, in the first place, consider the latter entirely apart from its quantitative aspect. The usual mode of procedure is generally the reverse, and in the value relation nothing is seen but the proportion between definite quantities of two different sorts of commodities that are considered equal to each other. It is apt to be forgotten that the magnitudes of different things can be compared quantitatively, only when those magnitudes are expressed in terms of the same unit. It is only as expressions of such a unit that they are of the same denomination, and therefore commensurable.*25

I.I.46

Whether 20 yards of linen=1 coat or=20 coats or=x coats‘that is, whether a given quantity of linen is worth few or many coats, every such statement implies that the linen and coats, as magnitudes of value, are expressions of the same unit, things of the same kind. Linen=coat is the basis of the equation.

I.I.47

But the two commodities whose identity of quality is thus assumed, do not play the same part. It is only the value of the linen that is expressed. And how? By its reference to the coat as its equivalent, as something that can be exchanged for it. In this relation the coat is the mode of existence of value, is value embodied, for only as such is it the same as the linen. On the other hand, the linen's own value comes to the front, receives independent expression, for it is only as being value that it is comparable with the coat as a thing of equal value, or exchangeable with the coat. To borrow an illustration from chemistry, butyric acid is a different substance from propyl formate. Yet both are made up of the same chemical substances, carbon (C), hydrogen (H), and oxygen (O), and that, too, in like proportions‘ namely, $C_4H_8O_2$. If now we equate butyric acid to propyl formate, then, in the first place, propyl formate would be, in this relation, merely a form of existence of $C_4H_8O_2$; and in the second place, we should be stating that butyric acid also consists of $C_4H_8O_2$. Therefore,

by thus equating the two substances, expression would be given to their chemical composition, while their different physical forms would be neglected.
I.I.48

If we say that, as values, commodities are mere congelations of human labour, we reduce them by our analysis, it is true, to the abstraction, value; but we ascribe to this value no form apart from their bodily form. It is otherwise in the value relation of one commodity to another. Here, the one stands forth in its character of value by reason of its relation to the other.
I.I.49

By making the coat the equivalent of the linen, we equate the labour embodied in the former to that in the latter. Now it is true that the tailoring, which makes the coat, is concrete labour of a different sort from the weaving which makes the linen. But the act of equating it to the weaving, reduces the tailoring to that which is really equal in the two kinds of labour, to their common character of human labour. In this roundabout way, then, the fact is expressed, that weaving also, in so far as it weaves value, has nothing to distinguish it from tailoring, and, consequently, is abstract human labour. It is the expression of equivalence between different sorts of commodities that alone brings into relief the specific character of value-creating labour, and this it does by actually reducing the different varieties of labour embodied in

the different kinds of commodities to their common quality of human labour in the abstract.*26
I.I.50

There is, however, something else required beyond the expression of the specific character of the labour of which the value of the linen consists. Human labour-power motion, or human labour, creates value, but is not itself value. It becomes value only in its congealed state, when embodied in the form of some object. In order to express the value of the linen as a congelation of human labour, that value must be expressed as having objective existence, as being a something materially different from the linen itself, and yet a something common to the linen and all other commodities. The problem is already solved.
I.I.51

When occupying the position of equivalent in the equation of value, the coat ranks qualitatively as the equal of the linen, as something of the same kind, because it is value. In this position it is a thing in which we see nothing but value, or whose palpable bodily form represents value. Yet the coat itself, the body of the commodity, coat, is a mere use-value. A coat as such no more tells us it is value, than does the first piece of linen we take hold of. This shows that when placed in value relation to the linen, the coat signifies more than when out of that relation, just as many a man strutting about in a gorgeous uniform counts for more than when in mufti.

I.I.52

In the production of the coat, human labour-power, in the shape of tailoring, must have been actually expended. Human labour is therefore accumulated in it. In this aspect the coat is a depository of value, but though worn to a thread, it does not let this fact show through. And as equivalent of the linen in the value equation, it exists under this aspect alone, counts therefore as embodied value, as a body that is value. A, for instance, cannot be "your majesty" to B, unless at the same time majesty in B's eyes assumes the bodily form of A, and, what is more, with every new father of the people, changes its features, hair, and many other things besides.
I.I.53

Hence, in the value equation, in which the coat is the equivalent of the linen, the coat officiates as the form of value. The value of the commodity linen is expressed by the bodily form of the commodity coat, the value of one by the use-value of the other. As a use-value, the linen is something palpably different from the coat; as value, it is the same as the coat, and now has the appearance of a coat. Thus the linen acquires a value form different from its physical form. The fact that it is value, is made manifest by its equality with the coat, just as the sheep's nature of a Christian is shown in his resemblance to the Lamb of God.
I.I.54

We see then, all that our analysis of the value of commodities has already told us, is told us by the linen itself, so soon as it comes into communication with another commodity, the coat. Only it betrays its thoughts in that language with which alone it is familiar, the language of commodities. In order to tell us that its own value is created by labour in its abstract character of human labour, it says that the coat, in so far as it is worth as much as the linen, and therefore is value, consists of the same labour as the linen. In order to inform us that its sublime reality as value is not the same as its buckram body, it says that value has the appearance of a coat, and consequently that so far as the linen is value, it and the coat are as like as two peas. We may here remark, that the language of commodities has, besides Hebrew, many other more or less correct dialects. The German "werthsein," to be worth, for instance, expresses in a less striking manner than the Romance verbs "valere," "valer," "valoir," that the equating of commodity B to commodity A, is commodity A's own mode of expressing its value. Paris vaut bien une messe.
I.I.55

By means, therefore, of the value relation expressed in our equation, the bodily form of commodity B becomes the value form of commodity A, or the body of commodity B acts as a mirror to the value of commodity A.*27 By putting itself in relation with commodity B, as value in propriâ personâ, as the matter of which human labour

is made up, the commodity A converts the value in use, B into the substance in which to express its, A's own value. The value of A, thus expressed in the use-value of B, has taken the form of relative value.

(b.) Quantitative determination of Relative value.

I.I.56

Every commodity, whose value it is intended to express, is a useful object of given quantity, as 15 bushels of corn, or 100 lbs. of coffee. And a given quantity of any commodity contains a definite quantity of human labor. The value-form must therefore not only express value generally, but also value in definite quantity. Therefore, in the value relation of commodity A to commodity B, of the linen to the cost, not only is the latter, as value in general, made the equal in quality of the linen, but a definite quantity of coat (1 coat) is made the equivalent of a definite quantity (20 yards) of linen.
I.I.57

The equation, 20 yards of linen=1coat, or 20 yards of linen are worth one coat, implies that the same quantity of value-substance (congealed labour) is embodied in both; that the two commodities have each cost the same amount of labour or the same quantity of labour time. But the labour time necessary for the production 20 yards of linen or 1 coat varies with every change in the

productiveness of weaving or tailoring. We have now to consider the influence of such changed on the quantitative aspect of the relative expression of value.

I.I.58

I. Let the value of the linen vary,*28 that of the coat remaining constant. If, say in consequence of the exhaustion of flax-growing soil, the labour time necessary for the production of the linen be doubled, the value of the linen will also be doubled. Instead of the equation, 20 yards of linen=1 coat, we should have 20 yards of linen=2 coats, since 1 coat would now contain only half the labour time embodied in 20 yards of linen. If, on the other hand, in consequence, say, of improved looms, this labour time be reduced by one half, the value of the linen would fall by one half. Consequently, we should have 20 yards of linen=½ coat. The relative value of commodity A, i.e., its value expressed in commodity B, raises and falls directly as the value of A, the value of B being supposed constant.

I.I.59

II. Let the value of the linen remain constant, while the value of the coat varies. If, under these circumstances, in consequence, for instance, of a poor crop of wool, the labour time necessary for the production of a coat becomes doubled, we have instead of 20 yards of linen=1 coat, 20 yards of linen=½ coat. If, on the other hand, the value of the coat sinks by one half, then 20 yards of linen=2 coats.

Hence, if the value of commodity A remain constant, its relative value expressed in commodity B rises and falls inversely as the value of B.
I.I.60

If we compare the different cases in I. and II., we see that the same change of magnitude in relative value may arise from totally opposite causes. Thus, the equation, 20 yards of linen=1 coat, becomes 20 yards of linen=2 coats, either, because, the value of the linen has doubled, or because the value of the coat has fallen by one half; and it becomes 20 yards of linen=½ coat, either, because the value of the linen has fallen by one half, or because the value of the coat has doubled.
I.I.61

III. Let the quantities of labour time respectively necessary for the production of the linen and coat vary simultaneously in the same direction and in the same proportion. In this case 20 yards of linen continue equal to 1 coat, however much their values may have altered. Their change of value is seen as soon as they are compared with a third commodity, whose value has remained constant. If the values of all commodities rose or fell simultaneously, and in the same proportion, their relative value would remain unaltered. Their real change of value would appear from the diminished or increased quantity of commodities produced in a given time.
I.I.62

IV. The labour time respectively necessary for the production of the linen and the coat, and therefore the value of these commodities may simultaneously vary in the same direction, but at unequal rates, or in opposite directions, or in other ways. The effect of all these possible different variations, on the relative value of a commodity, may be deduced from the results of I., II., and III.

I.I.63

Thus real changes in the magnitude of value are neither unequivocally nor exhaustively reflected in their relative expression, that is in the equation expressing the magnitude of relative value. The relative value of a commodity may vary, although its value remains constant. Its relative value may remain constant, although its value varies; and finally, simultaneous variations in the magnitude of value and in that of its relative expression by no means necessarily correspond in amount.*29

3. The Equivalent form of value.

I.I.64

We have seen that commodity A (the linen), by expressing its value in the use-value of a commodity differing in kind (the coat), at the same time impresses upon the latter a specific form of value, namely

that of the equivalent. The commodity linen manifests its quality of having a value by the fact that the coat, without having assumed a value form different from its bodily form, is equated to the linen. The fact that the latter therefore has a value is expressed by saying that the coat is directly exchangeable with it. Therefore, when we say that a commodity is in the equivalent form, we express the fact that it is directly exchangeable with other commodities.
I.I.65

When one commodity, such as a coat, serves as the equivalent of another, such as linen, and coats consequently acquire the characteristic property of being directly exchangeable with linen, we are far from knowing in what proportion the two are exchangeable. The value of the linen being given in magnitude, that proportion depends on the value of the coat. Whether the coat serves as the equivalent and the linen as relative value, or the linen as the equivalent and coast as relative value, the magnitude of the coat's value is determined, independently of its value form, by the labour time necessary for its production. But whenever the coat assumes in the equation of value, the position of equivalent, its value acquires no quantitative expression; on the contrary, the commodity coat now figures only as a definite quantity of some article.
I.I.66

For instance, 40 yards of linen are worth‘what? 2 coats. Because the commodity coat here plays the part of equivalent, because the use-value coat, as opposed to the linen, figures as an embodiment of value, therefore a definite number of coats suffices to express the definite quantity of value in the linen. Two coats may therefore express the quantity of value of 40 yards of linen, but they can never express the quantity of their own value. A superficial observation of this fact, namely, that in the equation of value, the equivalent figures exclusively as a simple quantity of some article, of some use-value, has misled Bailey, as also many others, both before and after him, into seeing, in the expression of value, merely a quantitative relation. The truth being, that when a commodity acts as equivalent, no quantitative determination of its value is expressed.
I.I.67

The first peculiarity that strikes us, in considering the form of the equivalent, is this; use-value becomes the form of manifestation, the phenomenal form of its opposite, value.
I.I.68

The bodily form of the commodity becomes its value form. But, mark well, that this quid pro quo exists in the case of any commodity B, only when some other commodity A enters into a value relation with it, and then only within the limits of this relation. Since no commodity can stand in the relation of equivalent to itself, and thus turn its own

bodily shape into the expression of its own value, every commodity is compelled to choose some other commodity for its equivalent, and to accept the use-value, that is to say, the bodily shape of that other commodity as the form of its own value.
I.I.69

One of the measures that we apply to commodities as material substances, as use-values, will serve to illustrate this point. A sugar-loaf being a body, is heavy, therefore has weight: but we can neither see nor touch this weight. We then take various pieces of iron, whose weight has been determined beforehand. The iron, as iron, is no more the form of manifestation of weight, than is the sugar-loaf. Nevertheless, in order to express the sugar-loaf as so much weight, we put it into a weight-relation with the iron. In this relation, the iron officiates as a body representing nothing but weight. A certain quantity of iron therefore serves as a measure of the weight of the sugar, and represents, in relation to the sugar-loaf, weight embodied, the form of manifestation of weight. This part is played by the iron only within this relation, into which the sugar or any other body, whose weight has to be determined, enters with the iron. Were they not both heavy, they could not enter into this relation, and the one could therefore not serve as the expression of the weight of the other. When we throw both into the scales, we see in reality, that as weight they are both the same, and that, therefore, when taken in proper proportions, they have the same weight. Just as the substance

iron, as a measure of weight, represents in relation to the sugar-loaf weight alone, so, in our expression of value, the material object, coat, in relation to be linen represents value alone.
I.I.70

Here, however, the analogy ceases. The iron, in the expression of the weight of the sugar-loaf, represents a natural property common to both bodies, namely their weight; but the coat in the expression of value of the linen, represents a non-natural property of both, something purely social, namely, their value.
I.I.71

Since the relative form of value of a commodity‘the linen, for example ‘expresses the value of that commodity, as being something wholly different from its substance and properties, as being, for instance, coat-like, we see that this expression itself indicates that some social relation lies at the bottom of it. With the equivalent form it is just the contrary. The very essence of this form is that the material commodity itself‘the coat‘just as it is, expresses value, and is endowed with the form of value by Nature itself. Of course this holds good only so long as the value relation exists, in which the coat stands in the position of equivalent to the linen.*30 Since, however, the properties of a thing are not the result of its relations to other things, but only manifest themselves in such relations, the coat seems to be endowed with its equivalent form, its property of being directly exchangeable,

just as much by Nature as it is endowed with the property of being heavy, or the capacity to keep us warm. Hence the enigmatical character of the equivalent form which escapes the notice of the bourgeois political economist, until this form, completely developed, confronts him in the shape of money. He then seeks to explain away the mystical character of gold and silver, by substituting for them less dazzling commodities, and by reciting, with ever renewed satisfaction, the catalogue of all possible commodities which at one time or another have played the part of equivalent. He has not the least suspicion that the most simple expression of value, such as 20 yds. of linen=1 coat, already propounds the riddle of the equivalent form for our solution.
I.I.72

The body of the commodity that serves as the equivalent, figures as the materialism of human labour in the abstract and is at the same time the product of some specifically useful concrete labour. The concrete labour becomes, therefore, the medium for expressing abstract human labour. If on the one hand the coat ranks as nothing but the embodiment of abstract human labour, so, on the other hand, the tailoring which is actually embodied in it, counts as nothing but the form under which that abstract labour is realised. In the expression of value of the linen, the utility of the tailoring consists, not in making clothes, but in making an object, which we at once recognise to be Value, and therefore to be a congelation of labour,

but of labour indistinguishable from that realised in the value of the linen. In order to act as such a mirror of value, the labour of tailoring must reflect nothing besides its own abstract quality of being human labour generally.
I.I.73

In tailoring, as well as in weaving, human labour-power is expended. Both, therefore, possess the general property of being human labour, and may, therefore, in certain cases, such as in the production of value, have to be considered under this aspect alone. There is nothing mysterious in this. But in the expression of value there is a complete turn of the tables. For instance, how is the fact to be expressed that weaving creates the value of the linen, not by virtue of being weaving, as such, but by reason of its general property of being human labour? Simply by opposing to weaving that other particular form of concrete labour (in this instance tailoring), which producés the equivalent of the product of weaving. Just as the coat in its bodily form became a direct expression of value, so now does tailoring, a concrete form of labour, appear as the direct and palpable embodiment of human labour generally.
I.I.74

Hence, the second peculiarity of the equivalent form is that concrete labour becomes the form under which its opposite, abstract human labour, manifests itself.

I.I.75

But because this concrete labour, tailoring in our case, ranks as, and is directly indentified with, undifferentiated human labour, it also ranks as identical with any other sort of labor, and therefore with that embodied in linen. Consequently, although, like all other commodity-producing labour, it is the labour of private individuals, yet, at the same time, it ranks as labour directly social in its character. This is the reason why it results in a product directly exchangeable with other commodities. We have then a third peculiarity of the Equivalent form, namely, that the labour of private individuals takes the form of its opposite, labour directly social in its form.
I.I.76

The two latter peculiarities of the Equivalent form will become more intelligible if we go back to the great thinker who was the first to analyse so many forms, whether of thought, society, or nature, and amongst them also the form of value. I mean Aristotle.
I.I.77

In the first place, he clearly enunciates that the money form of commodities is only the further development of the simple form of value‘i.e., of the expression of the value of one commodity in some other commodity taken at random; for he says

5 beds=1 house

()

is not to be distinguished from

5 beds=so much money.

()

I.I.78

He further sees that the value relation which gives rise to this expression makes it necessary that the house should qualitatively be made the equal of the bed, and that, without such an equalization, these two clearly different things could not be compared with each other as commensurable quantities. "Exchange," he says, "cannot take place without equality, and equality not without commensurability" (). Here, however, he comes to a stop, and gives up the further analysis of the form of value. "It is, however, in reality, impossible (), that such unlike things can be commensurable"‘i.e., qualitatively equal. Such an equalisation can only be something foreign to their real nature, consequently only "a make-shift for practical purposes."

I.I.79

Aristotle therefore, himself, tells us, what barred the way to his further analysis; it was the absence of any concept of value. What is that equal something, that common substance, which admits of the value of the beds being expressed by a house? Such a thing, in truth,

cannot exist, says Aristotle. And why not? Compared with the beds, the house does represent something equal to them, in so far a it represents what is really equal, both in the beds and the house. And that is‘human labour.
I.I.80

There was, however, an important fact which prevented Aristotle from seeing that, to attribute value to commodities, is merely a mode of expressing all labour as equal human labour, and consequently as labour of equal quality. Greek society was founded upon slavery, and had, therefore, for its natural basis, the inequality of men and of their labour powers. The secret of the expression of value, namely, that all kinds of labour are equal and equivalent, because, and so far as they are human labour in general, cannot be deciphered, until the notion of human equality has already acquired the fixity of a popular prejudice. This, however, is possible only in a society in which the great mass of the produce of labour takes the form of commodities, in which, consequently, the dominant relation between man and man, is that of owners of commodities. The brilliancy of Aristotle's genius is shown by this alone, that he discovered, in the expression of the value of commodities, a relation of equality. The peculiar conditions of the society in which he lived, alone prevented him from discovering what, "in truth," was at the bottom of this equality.

4. The Elementary form of value considered as a whole.

I.I.81

The elementary form of value of a commodity is contained in the equation, expressing its value relation to another commodity of a different kind, or in its exchange relation to the same. The value of commodity A is qualitatively expressed by the fact that commodity B is directly exchangeable with it. Its value is quantitively expressed by the fact, that a definite quantity of B is exchangeable with a definite quantity of A. In other words, the value of a commodity obtains independent and definite expression, by taking the form of exchange value. When, at the beginning of this chapter, we said, in common parlance, that a commodity is both a use-value and an exchange value, we were, accurately speaking, wrong. A commodity is a use-value or object of utility, and a value. It manifests itself as this two-fold thing, that it is, as soon as its value assumes an independent form‘viz., the form exchange value. It never assumes this form when isolated, but only when placed in a value or exchange relation with another commodity of a different kind. When once we know this, such a mode of expression does no harm; it simply serves as an abbreviation.

I.I.82

Our analysis has shown, that the form or expression of the value of a commodity originates in the nature of value, and not that value and

its magnitude originate in the mode of their expression as exchange value. This, however, is the delusion as well of the mercantilists and their recent revivors, Ferrier, Ganilh,*31 and others, as also of their antipodes, the modern bagmen of Free Trade, such as Bastiat. The mercantilists lay special stress on the qualitative aspect of the expression of value, and consequently on the equivalent form of commodities, which attains its full perfection in money. The modern hawkers of Free Trade, who must get rid of their article at any price, on the other hand, lay most stress on the quantitative aspect of the relative form of value. For them there consequently exists neither value, nor magnitude of value, anywhere except in its expression by means of the exchange relation of commodities, that is, in the daily list of prices current. MacLeod, who has taken upon himself to dress up the confused ideas of Lombard Street in the most learned finery, is a successful cross between the superstitious mercantilists, and the enlightened Free Trade bagmen.
I.I.83

A close scrutiny of the expression of the value of A in terms of B, contained in the equation expressing the value relation of A to B, has shown us that, within that relation, the bodily form of A figures only as a use-value, the bodily form of B only as the form or aspect of value. The opposition or contrast existing internally in each commodity between use-value and value, is, therefore, made evident externally by two commodities being placed in such relation to each other, that the

commodity whose value it is sought to express, figures directly as a mere use-value, while the commodity in which that value is to be expressed, figures directly as mere exchange value. Hence the elementary form of value of a commodity is the elementary form in which the contrast contained in that commodity, between use-value and value, becomes apparent.
I.I.84

Every product of labour is, in all states of society, a use-value; but it is only at a definite historical epoch in a society's development that such product becomes a commodity, viz., at the epoch when the labour spent on the production of a useful article becomes expressed as one of the objective qualities of that article, i.e., as its value. It therefore follows that the elementary value-form is also the primitive form under which a product of labour appears historically as a commodity, and that the gradual transformation of such products into commodities, proceeds pari passu with the development of the value-form.
I.I.85

We perceive, at first sight, the deficiencies of the elementary form of value: it is a mere germ, which must undergo a series of metamorphoses before it can ripen into the Price-form.
I.I.86

The expression of the value of commodity A in terms of any other commodity B, merely distinguishes the value from the use-value of A, and therefore places A merely in a relation of exchange with a single different commodity, B; but it is still far from expressing A's qualitative equality, and quantitative proportionality, to all commodities. To the elementary relative value-form of a commodity, there corresponds the single equivalent form of one other commodity. Thus, in the relative expression of value of the linen, the coat assumes the form of equivalent, or of being directly exchangeable, only in relation to a single commodity, the linen.
I.I.87

Nevertheless, the elementary form of value passes by an easy transition into a more complete form. It is true that by means of the elementary form, the value of a commodity A, becomes expressed in terms of one, and only one, other commodity. But that one may be a commodity of any kind, coat, iron, corn, or anything else. Therefore, according as A is placed in relation with one or the other, we get for one and the same commodity, different elementary expressions of value.*32 The number of such possible expressions is limited only by the number of the different kinds of commodities distinct from it. The isolated expression of A's value, is therefore convertible into a series, prolonged to any length, of the different elementary expressions of that value.

B. Total or Expanded form of value.

I.I.88

z Com. A=u Com. B or=v Com. C or=w Com. D or=x Com. E or=&c.

(20 yards of linen=1 coat or=10 lb tea or=40 lb coffee or=1 quarter corn or=2 ounces gold or=½ ton iron or=&c.)

1. The Expanded Relative form of value.

I.I.89

The value of a single commodity, the linen, for example, is now expressed in terms of numberless other elements of the world of commodities. Every other commodity now becomes a mirror of the linen's value.*33 It is thus, that for the first time this value shows itself in its true light as a congelation of undifferentiated human labour. For the labour that creates it, now stands expressly revealed, as labour that ranks equally with every other sort of human labour, no matter what its form, whether tailoring, ploughing, mining, &c. and no matter, therefore, whether it is realised in coats, corn, iron, or gold. The linen, by virtue of the form of its value, now stands in a social relation, no longer with only one other kind of commodity, but with the whole world of commodities. As a commodity, it is a citizen

of that world. At the same time, the interminable series of value equations implies, that as regards the value of a commodity, it is a matter of indifference under what particular form, or kind, of use-value it appears.

I.I.90

In the first form, 20 yds. of linen=1 coat, it might for ought that otherwise appears be pure accident, that these two commodities are exchangeable in definite quantities. In the second form, on the contrary, we perceive at once the background that determines, and is essentially different from, this accidental appearance. The value of the linen remains unaltered in magnitude, whether expressed in coats, coffee, or iron, or in numberless different commodities, the property of as many different owners. The accidental relation between two individual commodity-owners disappears. It becomes plain, that it is not the exchange of commodities which regulates the magnitude of their value; but, on the contrary, that it is the magnitude of their value which controls their exchange proportions.

2. The particular Equivalent form.

I.I.91

Each commodity, such as coat, tea, corn, iron, &c., figures in the expression of value of the linen, as an equivalent, and consequently

as a thing that is value. The bodily form of each of these commodities figures now as a particular equivalent form, one out of many. In the same way the manifold concrete form, one out of many. In the same way the manifold concrete useful kinds of labour, embodied in these different commodities, rank now as so many different forms of the realisation, or manifestation, of indifferentiated human labour.

3. Defects of the Total or Expanded form of value.

I.I.92

In the first place, the relative expression of value is incomplete because the series representing it is interminable. The chain of which each equation of value is a link, is liable at any moment to be lengthened by each new kind of commodity that comes into existence and furnishes the material for a fresh expression of value. In the second place, it is a many-coloured mosaic of disparate and independent expressions of value. And lastly, if, as must be the case, the relative value of each commodity in turn, becomes expressed in this expanded form, we get for each of them a relative value-form, different in every case, and consisting of an interminable series of expressions of value. The defects of the expanded relative-value form are reflected in the corresponding equivalent form. Since the bodily form of each single commodity is one particular equivalent form

amongst numberless others, we have, on the whole, nothing but fragmentary equivalent forms, each excluding the others. In the same way, also, the special, concrete, useful kind of labour embodied in each particular equivalent, is presented only as a particular kind of labour, and therefore not as an exhaustive representative of human labour generally. The latter, indeed, gains adequate manifestation in the totality of its manifold, particular, concrete forms. But, in that case, its expression in an infinite series is ever incomplete and deficient in unity.

I.I.93

The expanded relative value form is, however, nothing but the sum of the elementary relative expressions or equations of the first kind, such as

20 yards of linen=1 coat
20 yards of linen=10 lbs. of tea, etc.

I.I.94

Each of these implies the corresponding inverted equation,

1=coat=20 yards of linen
10 lbs. of tea=20 yards of linen, etc.

I.I.95

In fact, when a person exchanges his linen for many other commodities, and thus expresses its value in a series of other commodities, it necessarily follows, that the various owners of the latter exchange them for the linen, and consequently express the value of their various commodities in one and the same third commodity, the linen. If then, we reverse the series, 20 yards of linen=1 coat or=10 lbs. of tea, etc., that is to say, if we give expression to the converse relation already implied in the series, we get,

C. The General form of value.

I.I.96

1 coat
10 lbs. of tea
40 lbs. of coffee
1 quarter of corn
2 ounces of gold
½ a ton of iron
x com. A., etc. =20 yards of linen

1. The altered character of the form of value.

I.I.97

All commodities now express their value (1) in an elementary form, because in a single commodity; (2) with unity, because in one and the same commodity. This form of value is elementary and the same for all, therefore general.

I.I.98

The forms A and B were fit only to express the value of a commodity as something distinct from its use-value or material form.

I.I.99

The first form, A, furnishes such equations as the following:‘1 coat=20 yards of linen, 10 lbs. of tea=½ ton of iron. The value of the coat is equated to linen, that of the tea to iron. But to be equated to linen, and again to iron, is to be as different as are linen and iron. This form, it is plain, occurs practically only in the first beginning, when the products of labour are converted into commodities by accidental and occasional exchanges.

I.I.100

The second form, B, distinguishes, in a more adequate manner than the first, the value of a commodity from its use-value; for the value of the coat is there placed in contrast under all possible shapes with

the bodily form of the coat; it is equated to linen, to iron, to tea, in short, to everything else, only not to itself, the coat. On the other hand, any general expression of value common to all is directly excluded; for, in the equation of value of each commodity, all other commodities now appear only under the form of equivalents. The expanded form of value comes into actual existence for the first time so soon as a particular product of labour, such as cattle, is no longer exceptionally, but habitually, exchanged for various other commodities.
I.I.101

The third and lastly developed form expresses the values of the whole world of commodities in terms of a single commodity set apart for the purpose, namely, the linen, and thus represents to us their values by means of their equality with linen. The value of every commodity is now, by being equated to linen, not only differentiated from its own use-value, but from all other use-values generally, and is, by that very fact, expressed as that which is common to all commodities. By this form, commodities are, for the first time, effectively brought into relation with one another as values, or made to appear as exchange values.
I.I.102

The two earlier forms either express the value of each commodity in terms of a single commodity of a different kind, or in a series of many such commodities. In both cases, it is, so to say, the special

business of each single commodity to find an expression for its value, and this it does without the help of the others. These others, with respect to the former, play the passive parts of equivalents. The general form of value C, results from the joint action of the whole world of commodities, and from that alone. A commodity can acquire a general expression of its value only by all other commodities, simultaneously with it, expressing their values in the same equivalent; and every new commodity must follow suit. It thus becomes evident that, since the existence of commodities as values is purely social, this social existence can be expressed by the totality of their social relations alone, and consequently that the form of their value must be a socially recognised form.
I.I.103

All commodities being equated to linen now appear not only as qualitatively equal as values generally, but also as values whose magnitudes are capable of comparison. By expressing the magnitudes of their values in one and the same material, the linen, those magnitudes are also compared with each other. For instance, 10 lbs. of tea=20 yards of linen, and 40 lbs. of coffee=20 yards of linen. Therefore, 10 lbs. of tea=40 lbs. of coffee. In other words, there is contained in 1 lb, of coffee only one-fourth as much substance of value‘labour‘as is contained in 1 lb. of tea.
I.I.104

The general form of relative value, embracing the whole world of commodities, converts the single commodity that is excluded from the rest, and made to play the part of equivalent‘here the linen‘into the universal equivalent. The bodily form of the linen is now the form assumed in common by the value of all commodities; it therefore becomes directly exchangeable with all and every of them. The substance linen becomes the visible incarnation, the social chrysalis state of every kind of human labour. Weaving, which is the labour of certain private individuals producing a particular article, linen, acquires in consequence a social character, the character of equality with all other kinds of labour. The innumerable equations of which the general form of value is composed, equate in turn the labour embodied in the linen to that embodied in every other commodity, and they thus convert weaving into the general form of manifestation of undifferentiated human labour. In this manner the labour realised in the values of commodities is presented not only under its negative aspect, under which abstraction is made from every concrete form and useful property of actual work, but its own positive nature is made to reveal itself expressly. The general value-form is the reduction of all kinds of actual labour to their common character of being human labour generally, of being the expenditure of human labour power. I.I.105

The general value form, which represents all products of labour as mere congelations of undifferentiated human labour, shows by its very

structure that it is the social resumé of the world of commodities. That form consequently makes it indisputably evident that in the world of commodities the character possessed by all labour of being human labour constitutes its specific social character.

2. The interdependent development of the Relative form of value, and of the Equivalent form.

I.I.106

The degree of development of the relation form of value corresponds to that of the equivalent form. But we must bear in mind that the development of the latter is only the expression and result of the development of the former.
I.I.107

The primary or isolated relative form of value of one commodity converts some other commodity into an isolated equivalent. The expanded form of relative value, which is the expression of the value of one commodity in terms of all other commodities, endows those other commodities with the character of particular equivalents differing in kind. And lastly, a particular kind of commodity acquires the character of universal equivalent, because all other commodities make it the material in which they uniformly express their value.
I.I.108

The antagonism between the relative form of value and the equivalent form, the poles of the value form, is developed concurrently with that form itself.
I.I.109

The first form, 20 yds. of linen=one coat, already contains this antagonism, without as yet fixing it. According as we read this equation forwards or backwards, the parts played by the linen and the coat are different. In the one case the relative value of the linen is expressed in the coat, in the other case the relative value of the coat is expressed in the linen. In this first form of value, therefore, it is difficult to grasp the polar contrast.
I.I.110

Form B shows that only one single commodity at a time can completely expand its relative value, and that it acquires this expanded form only because, and in so far as, all other commodities are, with respect to it, equivalents. Here we cannot reverse the equation, as we can the equation 20 yds. of linen=1 coat, without altering its general character, and converting it from the expanded form of value into the general form of value.
I.I.111

Finally, the form C gives to the world of commodities a general social relative form of value, because, and in so far as, thereby all commodities, with the exception of one, are excluded from the equivalent form. A single commodity, the linen, appears therefore to have acquired the character of direct exchangeability with every other commodity because, and in so far as, this character is denied to every other commodity.*34

I.I.112

The commodity that figures as universal equivalent, is, on the other hand, excluded from the relative value form. If the linen, or any other commodity serving as universal equivalent, were, at the same time, to share in the relative form of value, it would have to serve as its own equivalent. We should then have 20 yds. of linen=20 yds. of linen; this tautology expresses neither value, nor magnitude of value. In order to express the relative value of the universal equivalent, we must rather reverse the form C. This equivalent has no relative form of value in common with other commodities, but its value is relatively expressed by a never ending series of other commodities. Thus, the expanded form of relative value, or form B, now shows itself as the specific form of relative value for the equivalent commodity.

3. Transition from the General form of value to the Money form.

I.I.113

The universal equivalent form is a form of value in general. It can, therefore, be assumed by any commodity. On the other hand, if a commodity be found to have assumed the universal equivalent form (form C), this is only because and in so far as it has been excluded from the rest of all other commodities as their equivalent, and that by their own act. And from the moment that this exclusion becomes finally restricted to one particular commodity, from that moment only, the general form of relative value of the world of commodities obtains real consistence and general social validity.
I.I.114

The particular commodity, with whose bodily form the equivalent form is thus socially identified, now becomes the money commodity, or serves as money. It becomes the special social function of that commodity, and consequently its social monopoly, to play within the world of commodities the part of the universal equivalent. Amongst the commodities which, in form B, figure as particular equivalents of the linen, and in form C, express in common their relative values in linen, this foremost place has been attained by one in particular‘ namely, gold. If, then, in form C we replace the linen by gold, we get,

D. The Money form.

I.I.115

20 yards of linen =
1 coat =
10 lb of tea =
40 lb of coffee = 2 ounces of gold.
1 qr. of corn =
½ a ton iron =
x commodity A =
I.I.116

In passing from form A to form B, and from the latter to form C, the changes are fundamental. On the other hand, there is no difference between forms C and D, except that, in the latter, gold has assumed the equivalent form in the place of linen. Gold is in form D, what linen was in form C‘the universal equivalent. The progress consists in this alone, that the character of direct and universal exchangeability‘in other words, that the universal equivalent form‘has now, by social custom, become finally identified with the substance, gold.
I.I.117

Gold is now money with reference to all other commodities only because it was previously, with reference to them, a simple commodity. Like all other commodities, it was also capable of serving as an equivalent, either as simple equivalent in isolated exchanges, or

as particular equivalent by the side of others. Gradually it began to serve, within varying limits, as universal equivalent. So soon as it monopolises this position in the expression of value for the world of commodities, it becomes the money commodity, and then, and not till then, does form D become distinct from form C, and the general form of value become changed into the money form.
I.I.118

The elementary expression of the relative value of a single commodity, such as linen, in terms of the commodity, such as gold, that plays the part of money, is the price form of that commodity. The price form of the linen is therefore

20 yards of linen=2 ounces of gold, or, if 2 ounces of gold when coined are £2, 20 yards of linen=£2.

I.I.119

The difficulty in forming a concept of the money form, consists in clearly comprehending the universal equivalent form, and as a necessary corollary, the general form of value, form C. The latter is deducible from form B, the expanded form of value, the essential component element of which, we saw, is form A, 20 yards of linen=1 coat or x commodity A=y commodity B. The simple commodity form is therefore the germ of the money form.

SECTION 4.‘THE FETISHISM OF COMMODITIES AND THE SECRET THEREOF.

I.I.120

A commodity appears, at first sight, a very trivial thing, and easily understood. Its analysis shows that it is, in reality, a very queer thing, abounding in metaphysical subtleties and theological niceties. So far as it is a value in use, there is nothing mysterious about it, whether we consider it from the point of view that by its properties it is capable of satisfying human wants, or from the point that those properties are the product of human labour. It is as clear as noon-day, that man, by his industry, changes the forms of the materials furnished by nature, in such a way as to make them useful to him. The form of wood, for instance, is altered, by making a table out of it. Yet, for all that the table continues to be that common, every-day thing, wood. But, so soon as it steps forth as a commodity, it is changed into something transcendent. It not only stands with its feet on the ground, but, in relation to all other commodities, it stands on its head, and evolves out of its wooden brain grotesque ideas, far more wonderful than "table-turning" ever was.

I.I.121

The mystical character of commodities does not originate, therefore, in their use-value. Just as little does it proceed from the nature of the determining factors of value. For, in the first place, however varied the useful kinds of labour, or productive activities, may be, it is a physiological fact, that they are functions of the human organism, and that each such function, whatever may be its nature or form, is essentially the expenditure of human brain, nerves, muscles, &c. Secondly, with regard to that which forms the ground-work for the quantitative determination of value, namely, the duration of that expenditure, or the quantity of labour, it is quite clear that there is a palpable difference between its quantity and quality. In all states of society, the labour-time that it costs to produce the means of subsistence must necessarily be an object of interest to mankind, though not of equal interest in different stages of development.*35 And lastly, from the moment that men in any way work for one another, their labour assumes a social form.
I.I.122

Whence, then, arises the enigmatical character of the product of labour, so soon as it assumes the form of commodities? Clearly from this form itself. The equality of all sorts of human labour is expressed objectively by their products all being equally values; the measure of the expenditure of labour-power by the duration of that expenditure, takes the form of the quantity of value of the products of labour; and finally, the mutual relations of the producers, within which the social

character of their labour affirms itself, take the form of a social relation between the products.
I.I.123

A commodity is therefore a mysterious thing, simply because in it the social character of men's labour appears to them as an objective character stamped upon the product of that labour; because the relation of the producers to the sum total of their own labour is presented to them as a social relation, existing not between themselves, but between the products of their labour. This is the reason why the products of labour become commodities, social things whose qualities are at the same time perceptible and imperceptible by the senses. In the same way the light from an object is perceived by us not as the subjective excitation of our optic nerve, but as the objective form of something outside the eye itself. But, in the act of seeing, there is at all events, an actual passage of light from one thing to another, from the external object to the eye. There is a physical relation between physical things. But it is different with commodities. There, the existence of the things quâ commodities, and the value relation between the products of labour which stamps them as commodities, have absolutely no connection with their physical properties and with the material relations arising therefrom. There it is a definite social relation between men, that assumes, in their eyes, the fantastic form of a relation between things. In order, therefore, to find an analogy, we must have recourse to the mist-enveloped regions

of the religious world. In that world the productions of the human brain appear as independent beings endowed with life, and entering into relation both with one another and the human race. So it is in the world of commodities with the products of men's hands. This I call the Fetishism which attaches itself to the products of labour, so soon as they are produced as commodities, and which is therefore inseparable from the production of commodities.
I.I.124

This Fetishism of commodities has its origin, as the foregoing analysis has already shown, in the peculiar social character of the labour that produces them.
I.I.125

As a general rule, articles of utility become commodities, only because they are products of the labour of private individuals or groups of individuals who carry on their work independently of each other. The sum total of the labour of all these private individuals forms the aggregate labour of society. Since the producers do not come into social contact with each other until they exchange their products, the specific social character of each producer's labour does not show itself except in the act of exchange. In other words, the labour of the individual asserts itself as a part of the labour of society, only by means of the relations which the act of exchange establishes directly between the products, and indirectly, through them, between the

producers. To the latter, therefore, the relations connecting the labour of the individual with that of the rest appear, not as direct social relations between individuals at work, but as what they really are, material relations between persons and social relations between things. It is only by being exchanged that the products of labour acquire, as values, one uniform social status, distinct from their varied forms of existence as objects of utility. This division of a product into a useful thing and a value becomes practically important, only when exchange has acquired such an extension that useful articles are produced for the purpose of being exchanged, and their character as values has therefore to be taken into account, beforehand, during production. From this moment the labour of the individual producer acquires socially a two-fold character. On the one hand, it must, as a definite useful kind of labour, satisfy a definite social want, and thus hold its place as part and parcel of the collective labour of all, as a branch of a social division of labour that has sprung up spontaneously. On the other hand, it can satisfy the manifold wants of the individual producer himself, only in so far as the mutual exchangeability of all kinds of useful private labour is an established social fact, and therefore the private useful labour of each producer ranks on an equality with that of all others. The equalization of the most different kinds of labour can be the result only of an abstraction from their inequalities, or of reducing them to their common denominator, viz., expenditure of human labour power or human labour in the abstract. The two-fold social character of the labour of the individual appears to

him, when reflected in his brain, only under those forms which are impressed upon that labour in everyday practice by the exchange of products. In this way, the character that his own labour possesses of being socially useful takes the form of the condition, that the product must be not only useful, but useful for others, and the social character that his particular labour has of being the equal of all other particular kinds of labour, takes the form that all the physically different articles that are the products of labour, have one common quality, viz, that of having value.
I.I.126

Hence, when we bring the products of our labour into relation with each other as values, it is not because we see in these articles the material receptacles of homogeneous human labour. Quite the contrary; whenever, by an exchange, we equate as values our different products, by that very act, we also equate, as human labour, the different kinds of labour expended upon them. We are not aware of this, nevertheless we do it.*36 Value, therefore, does not stalk about with a label describing what it is. It is value, rather, that converts every product into a social hieroglyphic. Later on, we try to decipher the hieroglyphic, to get behind the secret of our own social products; for to stamp an object of utility as a value, is just as much a social product as language. The recent scientific discovery, that the products of labour, so far as they are values, are but material expressions of the human labour spent in their production, marks,

indeed, an epoch in the history of the development of the human race, but, by no means, dissipates the mist through which the social character of labour appears to us to be an objective character of the products themselves. The fact, that in the particular form of production with which we are dealing, viz., the production of commodities, the specific social character of private labour carried on independently, consists in the equality of every kind of the labour, by virtue of its being human labour, which character, therefore, assumes in the product the form of value‘this fact appears to the producers, notwithstanding the discovery above referred to, to be just as real and final, as the fact, that, after the discovery by science of the component gases of air, the atmosphere itself remained unaltered. I.I.127

What, first of all, practically concerns producers when they make an exchange, is the question, how much of some other product they get for their own? in what proportions the products are exchangeable? When these proportions have, by custom, attained a certain stability, they appear to result from the nature of the products, so that, for instance, one ton of iron and two ounces of gold appear as naturally to be of equal value as a pound of gold and a pound of iron in spite of their different physical and chemical qualities appear to be of equal weight. The character of having value, when once impressed upon products, obtains fixity only by reason of their acting and re-acting upon each other as quantities of value. These quantities vary

continually, independently of the will, foresight and action of the producers. To them, their own social action takes the form of the action of objects, which rule the producers instead of being ruled by them. It requires a fully developed production of commodities before, from accumulated experience alone, the scientific conviction springs up, that all the different kinds of private labour, which are carried on independently of each other, and yet as spontaneously developed branches of the social division of labour, are continually being reduced to the quantitive proportions in which society requires them. And why? Because, in the midst of all the accidental and ever fluctuating exchange-relations between the products, the labour-time socially necessary for their production forcibly asserts itself like an over-riding law of nature. The law of gravity thus asserts itself when a house falls about our ears.*37 The determination of the magnitude of value by labour-time is therefore a secret, hidden under the apparent fluctuations in the relative values of commodities. Its discovery, while removing all appearance of mere accidentality from the determination of the magnitude of the values of products, yet in no way alters the mode in which that determination takes place.
I.I.128

Man's reflections on the forms of social life, and consequently, also, his scientific analysis of those forms, taken a course directly opposite to that of their actual historical development. He begins, post festum, with the results of the process of development ready to hand before

him. The characters that stamp products as commodities, and whose establishment is a necessary preliminary to the circulation of commodities, have already acquired the stability of natural, self-understood forms of social life, before man seeks to decipher, not their historical character, for in his eyes they are immutable, but their meaning. Consequently it was the analysis of the prices of commodities that alone led to the determination of the magnitude of value, and it was the common expression of all commodities in money that alone led to the establishment of their characters as values. It is, however, just this ultimate money form of the world of commodities that actually conceals, instead of disclosing, the social character of private labour, and the social relations between the individual producers. When I state that coats or boots stand in a relation to linen, because it is the universal incarnation of abstract human labour, the absurdity of the statement is self-evident. Nevertheless, when the producers of coats and boots compare those articles with linen, or, what is the same thing with gold or silver, as the universal equivalent, they express the relation between their own private labour and the collective labour of society in the same absurd form.
I.I.129

The categories of bourgeois economy consist of such like forms. They are forms of thought expressing with social validity the conditions and relations of a definite, historically determined mode of production, viz., the production of commodities. The whole mystery of commodities, all

the magic and necromancy that surrounds the products of labour as long as they take the form of commodities, vanishes therefore, so soon as we come to other forms of production.
I.I.130

Since Robinson Crusoe's experiences are a favorite theme with political economists,*38 let us take a look at him on his island. Moderate though he be, yet some few wants he has to satisfy, and must therefore do a little useful work of various sorts, such as making tools and furniture, taming goats, fishing and hunting. Of his prayers and the like we take no account, since they are a source of pleasure to him, and he looks upon them as so much recreation. In spite of the variety of his work, he knows that his labour, whatever its form, is but the activity of one and the same Robinson, and consequently, that it consists of nothing but different modes of human labour. Necessity itself compels him to apportion his time accurately between his different kinds of work. Whether one kind occupies a greater space in his general activity than another, depends on the difficulties, greater or less as the case may be, to be overcome in attaining the useful effect aimed at. This our friend Robinson soon learns by experience, and having rescued a watch, ledger, and pen and ink from the wreck, commences, like a true-born Briton, to keep a set of books. His stock-book contains a list of the objects of utility that belong to him, of the operations necessary for their production; and lastly; of the labour time that definite quantities of those objects have, on an average,

cost him. All the relations between Robinson and the objects that form this wealth of his own creation, are here so simple and clear as to be intelligible without exertion, even to Mr. Sedley Taylor. And yet those relations contain all that is essential to the determination of value.
I.I.131

Let us now transport ourselves from Robinson's island bathed in light to the European middle ages shrouded in darkness. Here, instead of the independent man, we find everyone dependent, serfs and lords, vassals and suzerains, laymen and clergy. Personal dependence here characterises the social relations of production just as much as it does the other spheres of life organized on the basis of that production. But for the very reason that personal dependence forms the groundwork of society, there is no necessity for labour and its products to assume a fantastic form different from their reality. They take the shape, in the transactions of society, of services in kind and payments in kind. Here the particular and natural form of labour, and not, as in a society based on production of commodities, its general abstract form is the immediate social form of labour. Compulsory labour is just as properly measured by time, as commodity-producing labour; but every serf knows that what he expends in the service of his lord, is a definite quantity of his own personal labour-power. The tithe to be rendered to the priest is more matter of fact than his blessing. No matter, then, what we may think of the parts played by

the different classes of people themselves in this society, the social relations between individuals in the performance of their labour, appear at all events as their own mutual personal relations, and are not disguised under the shape of social relations between the products of labour.
I.I.132

For an example of labour in common or directly associated labour, we have no occasion to go back to that spontaneously developed form which we find on the threshold of the history of all civilized races.*39 We have one close at hand in the patriarchal industries of a peasant family, that produces corn, cattle, yarn, linen, and clothing for home use. These different articles are, as regards the family, so many products of its labour, but as between themselves, they are not commodities. The different kinds of labour, such as tillage, cattle tending, spinning, weaving and making clothes, which result in the various products, are in themselves, and such as they are, direct social functions, because functions of the family, which just as much as a society based on the production of commodities, possesses a spontaneously developed system of division of labour. The distribution of the work within the family, and the regulation of the labour-time of the several members, depend as well upon differences of age and sex as upon natural conditions varying with the seasons. The labour-power of each individual, by its very nature, operates in this case merely as a definite portion of the whole labour-power of the family, and

therefore, the measure of the expenditure of individual labour-power by its duration, appears here by its very nature as a social character of their labour.
I.I.133

Let us now picture to ourselves, by way of change, a community of free individuals, carrying on their work with the means of production in common, in which the labour-power of all the different individuals is consciously applied as the combined labour-power of the community. All the characteristics of Robinson's labour are here repeated, but with this difference, that they are social, instead of individual. Everything produced by him was exclusively the result of his own personal labour, and therefore simply an object of use for himself. The total product of our community is a social product. One portion serves as fresh means of production and remains social. But another portion is consumed by the members as means of subsistence. A distribution of this portion amongst them is consequently necessary. The mode of this distribution will vary with the productive organization of the community, and the degree of historical development attained by the producers. We will assume, but merely for the sake of a parallel with the production of commodities, that the share of each individual producer in the means of subsistence is determined by his labour-time. Labour-time would, in that case, play a double part. Its apportionment in accordance with a definite social plan maintains the proper proportion between the different kinds of

work to be done and the various wants of the community. On the other hand, it also serves as a measure of the portion of the common labour borne by each individual and of his share in the part of the total product destined for individual consumption. The social relations of the individual producers, with regard both to their labour and to its products, are in this case perfectly simple and intelligible, and that with regard not only to production but also to distribution.
I.I.134

The religious world is but the reflex of the real world. And for a society based upon the production of commodities, in which the producers in general enter into social relations with one another by treating their products as commodities and values, whereby they reduce their individual private labour to the standard of homogeneous human labour‘for such a society, Christianity with its cultus of abstract man, more especially in its bourgeois developments, Protestantism, Deism, &c., is the most fitting form of religion. In the ancient Asiatic and other ancient modes of production, we find that the conversion of products into commodities, and therefore the conversion of men into producers of commodities, holds a subordinate place, which, however, increases in importance as the primitive communities approach nearer and nearer to their dissolution. Trading nations, properly so called, exist in the ancient world only in its interstices, like the gods of Epicurus in the Intermundia, or like Jews in the pores of Polish society. Those ancient social organisms of production are, as compared

with bourgeois society, extremely simple and transparent. But they are founded either on the immature development of man individually, who has not yet severed the umbilical cord that unites him with his fellow men in a primitive tribal community, or upon direct relations of subjection. They can arise and exist only when the development of the productive power of labour has not risen beyond a low stage, and when, therefore, the social relations within the sphere of material life, between man and man, and between man and Nature, are correspondingly narrow. This narrowness is reflected in the ancient worship of Nature, and in the other elements of the popular religions. The religious reflex of the real world can, in any case, only then finally vanish, when the practical relations of everyday life offer to man none but perfectly intelligible and reasonable relations with regard to his fellowmen and to nature.
I.I.135

The life-process of society, which is based on the process of material production, does not strip off its mystical veil until it is treated as production by freely associated men, and is consciously regulated by them in accordance with a settled plan. This, however, demands for society a certain material groundwork or set of conditions of existence which in their turn are the spontaneous product of a long and painful process of development.
I.I.136

Political economy has indeed analysed, however incompletely,*40 value and its magnitude, and has discovered what lies beneath these forms. But it has never once asked the question why labour is represented by the value of its product and labour time by the magnitude of that value.*41 These formulæ, which bear stamped upon them in unmistakeable letters, that they belong to a state of society, in which the process of production has the mastery over man, instead of being controlled by him, such formulæ appear to the bourgeois intellect to be as much a self-evident necessity imposed by nature as productive labour itself. Hence forms of social production that preceded the bourgeois form, are treated by the bourgeoisie in much the same way as the Fathers of the Church treated pre-Christian religions.*42
I.I.137

To what extent some economists are misled by the Fetishism inherent in commodities, or by the objective appearance of the social characteristics of labour, is shown, amongst other ways, by the dull and tedious quarrel over the part played by Nature in the formation of exchange value. Since exchange value is a definite social manner of expressing the amount of labour bestowed upon an object, Nature has no more to do with it, than it has in fixing the course of exchange.
I.I.138

The mode of production in which the product takes the form of a commodity, or is produced directly for exchange, is the most general

and most embryonic form of bourgeois production. It therefore makes its appearance at an early date in history, though not in the same predominating and characteristic manner as now-a-days. Hence its Fetish character is comparatively easy to be seen through. But when we come to more concrete forms, even this appearance of simplicity vanishes. Whence arose the illusions of the monetary system? To it gold and silver, when serving as money, did not represent a social relation between producers, but were natural objects with strange social properties. And modern economy, which looks down with such disdain on the monetary system, does not its superstition come out as clear as noon-day, whenever it treats of capital? How long is it since economy discarded the physiocratic illusion, that rents grow out of the soil and not out of society?
I.I.139

But not to anticipate, we will content ourselves with yet another example relating to the commodity form. Could commodities themselves speak, they would say: Our use-value may be a thing that interests men. It is no part of us as objects. What, however, does belong to us as objects, is our value. Our natural intercourse as commodities proves it. In the eyes of each other we are nothing but exchange values. Now listen how those commodities speak through the mouth of the economist. "Value"‘(i.e., exchange value) "is a property of things, riches"‘(i.e., use-value) "of man. Value, in this sense, necessarily implies exchanges, riches do not."*43 "Riches"

(use-value) "are the attribute of men, value is the attribute of commodities. A man or a community is rich, a pearl or a diamond is valuable...A pearl or a diamond is valuable" as a pearl or diamond.*44 So far no chemist has ever discovered exchange value either in a pearl or a diamond. The economical discoverers of this chemical element, who by-the-bye lay special claim to critical acumen, find however that the use-value of objects belongs to them independently of their material properties, while their value, on the other hand, forms a part of them as objects. What confirms them in this view, is the peculiar circumstances that the use-value of objects is realised without exchange, by means of a direct relation between the objects and man, while, on the other hand, their value is realised only by exchange, that is, by means of a social process. Who fails here to call to mind our good friend, Dogberry, who informs neighbour Seacoal, that, "To be a well-favoured man is the gift of fortune; but reading and writing comes by nature."

Notes for this chapter

10.
Karl Marx "A Contribution to the Critique of Political Economy," 1859. London, p. 19.
11.
"Desire implies want; it is the appetite of the mind, and as natural as hunger to the body.... The greatest number (of things) have their

value from supplying the wants of the mind." Nicolas Barbon: "A Discourse on coining the new money lighter, in answer to Mr. Locke's Considerations," &c. London, 1695. p. 2, 3.

12.

"Things have an intrinsic virtue" (this is Barbon's special term for value in use) "which in all places have the same virtue; as the loadstone to attract iron" (l. c. p. 6). The property which the magnet possesses of attracting iron, became of use only after by means of that property the polarity of the magnet had been discovered.

13.

"The natural worth of anything consists in its fitness to supply the necessities, or serve the conveniences of human life." (John Locke, "Some considerations on the consequences of the lowering of interest, 1691," in Works Edit. London, 1777, Vol. II., p. 28.) In English writers of the 17th century we frequently find "worth" in the sense of value in use, and "value" in the sense of exchange value. This is quite in accordance with the spirit of a language that likes to use a Teutonic word for the actual thing and a Romance word for its reflexion.

14.

In bourgeois societies the economical fictio juria prevails, that every one, as a buyer, possesses an encyclopædic knowledge of commodities.

15.

"La valeur consiste dans le rapport d'échange qui se trouve entre telle chose et telle autre, entre telle mesure d'une production, et telle

mesure d'une autre." (Le Trosne: De l' Intérêt Social. Physiocrates, Ed. Daire. Paris, 1845. P. 889.)

16.

"Nothing can have an intrinsick value." (N. Barbon, l. c., p. 6); or as Butler says‘

> "The value of a thing
> Is just as much at it will bring."

17.

N. Barbon, l. c. p. 53 and 7.

18.

The value of them (the necessaries of life), when they are exchanged the one for another, is regulated by the quantity of labour necessarily required, and commonly taken in producing them." (Some Thoughts on the Interest of Money in general, and particularly in the Publick Funds, &c., Lond., p. 36.) This remarkable anonymous work, written in the last century, bears no date. It is clear, however, from internal evidence, that it appeared in the reign of George II. about 1739 or 1740.

19.

"Toutes les productions d'un même genre ne forment proprement qu'une masse, dont le prix se détermine en général et sans egard aux circonstances particulières." (Le Trosne, l. c. p. 893.)

20.

K. Marx, l. c. p. 24

21.

Tutti i fenomeni dell' universo, sieno essi prodotti della mano, dell' uomo, ovvero delle universali leggi della fisica, non ci danno idea di attuale creazione, ma unicamente di una modificazione della materia. Accostare e separare sono gli unici elementi che l'ingegno umano ritrova analizzando l'idea della riproduzione: e tanto é riproduzione di valore (value in use, although Verri in this passage of his controversy with the Physiocrats is not himself quite certain of the kind of value he is speaking of) e di ricchezze se la terra l'aria e l'acqua ne' campi si trasmutino in grano, come se colla mano dell' uomo il glutine di un insetto si trasmuti in velluto ovvero alcuni pezzetti di metallo si organizzino a formare una ripetizione."‘Pietro Verri. "Meditazioni sulla Economia Politica" [first printed in 1773] in Custodi's edition of the Italian Economists, Parte Moderna, t. xv. p. 22.

22.

Comp. Hegel, Philosophie des Rechts. Berlin, 1840, p. 250 § 190.

23.

The reader must note that we are not speaking here of the wages or value that the labourer gets for a given labour time, but of the value of the commodity in which that labour time is materialised. Wages is a category that, as yet, has no existence at the present stage of our investigation.

24.

In order to prove that labour alone is that all-sufficient and real measure, by which at all times the value of all commodities can be estimated and compared, Adam Smith says, "Equal quantities of labour must at all times and in all places have the same value for the labourer. In his normal state of health, strength and activity, and with the average degree of skill that he may possess, he must always give up the same portion of his rest, his freedom, and his happiness." (Wealth of Nations, b. I. ch. v.) On the one hand, Adam Smith here (but not everywhere) confuses the determination of value by means of the quantity of labour expended in the production of commodities, with the determination of the values of commodities by means of the value of labour, and seeks in consequence to prove that equal quantities of labour have always the same value. On the other hand, he has a presentiment, that labour, so far as it manifests itself in the value of commodities, counts only as expenditure of labour power, but he treats his expenditure as the mere sacrifice of rest, freedom, and happiness, not as the same time the normal activity of living beings. But then, he has the modern wage-labourer in his eye. Much more aptly, the anonymous predecessor of Adam Smith, quoted above in Note 1, p.6 says, "one man has employed himself a week in providing this necessary of life...and he that gives him some other in exchange, cannot make a better estimate of what is a proper equivalent, than by computing what cost him just as much labour and time; which in effect is no more than exchanging one man's labour in one thing for a time certain, for another man's labour in another thing for the same

time." (l. c. p. 39.) [The English language has the advantage of possessing different words for the two aspects of labour here considered. The labour which creates Use-Value, and counts qualitatively, is Work, as distinguished from Labour; that which creates Value and counts quantitatively, is Labour as distinguished from Work.‘ ED.]

25.

The few economists, amongst whom is S. Bailey, who have occupied themselves with the analysis of the form of value, have been unable to arrive at any result, first, because they confuse the form of value with value itself; and second, because, under the coarse influence of the practical bourgeois, they exclusively give their attention to the quantitative aspect of the question. "The command of quanity…constitutes value." (Money and its Vicissitudes." London, 1837, p. 11. By S. Bailey.

26.

The celebrated Franklin, one of the first economists, after Wm. Petty, who saw through the nature of value, says: "Trade in general being nothing else but the exchange of labour for labour, the value of all things is…most justly measured by labour." (The works of B. Franklin, &c., edited by Sparks, Boston, 1836, Vol. II., p. 267.) Franklin is unconscious that by estimating the value of everything in labour, he makes abstraction from any difference in the sorts of labour exchanged, and thus reduces them all to equal human labour. But although ignorant of this, yet he says it. He speaks first of "the one

labour," then of "the other labour," and finally of "labour," without further qualification, as the substance of the value of everything.

27.

In a sort of way, it is with man as with commodities. Since he comes into the world neither with a looking glass in his hand, nor as a Fichtian philosopher, to whom " I am I " is sufficient, man first sees and recognises himself in other men. Peter only establishes his own identity as a man by first comparing himself with Paul as being of like kind. And thereby Paul, just as he stands in his Pauline personality, becomes the Peter the type of the genus homo.

28.

Value is here, as occasionally in the preceding pages, used in the sense of value determined as to quantity, or of magnitude of value.

29.

This incongruity between the magnitude of value and its relative expression has, with customary ingenuity, been exploited by vulgar economists. For example‘"Once admit that A falls, because B, with which it is exchanged, rises while no less labour is bestowed in the meantime on A, and your general principle of value falls to the ground...If he [Ricardo] allowed that when A rises in value relatively to B, B falls in value relatively to A, he cut away the ground on which he rested his grand proposition, that the value of commodity is ever determined by the labour embodied in it; for if a change in the cost of A alters not only its own value in relation to B, for which it is exchanged, but also the value of B relatively to that of A, though no

change has taken place in the quantity of labour to produce B, then not only the doctrine falls to the ground which asserts that the quantity of labour bestowed on an article regulates its value, but also that which affirms the cost of an article to regulate its value." (J. Broadhurst: Political Economy, London, 1842, p. 11 and 14.

Mr Boadhurst might just as well say: consider the fractions 10/20, 10/50, 10/100, &c., the number 10 remains unchanged, and yet its proportional magnitude, its magnitude relatively to the numbers 20, 50, 100, &c., continually diminishes, Therefore the great principle that the magnitude of a whole number, such as 10, is "regulated" by the number of times unity is contained in it. falls to the ground‘[The author explains in section 4 of this chapter, p. 93, note 1, what he understands by "Vulgar Economy."‘Ed.]

30.

Such expressions of relations in general, called by Hegel reflex-categories, form a very curious class. For instance, one man is king only because other men stand in the relation of subjects to him. They, on the contrary, imagine that they are subjects because he is king.

31.

F. L. Ferrier, sous-inspecteur des douanes, "Du gouvernement considerè dans ses rapports avec le commerce," Paris, 1805; and Charles Ganilh, "Des Systèmes d'Economic politique," 2nd ed., Paris, 1821.

32.

In Homer, for instance, the value of an article is expressed in a series of different things, II. VII., 472-475.

33.

For this reason, we can speak of the coat-value of the linen when its value is expressed in coats, or of its corn-value when expressed in corn, and so on. Every such expression tells us, that what appears in the use-values, coat, corn, &c., is the value of the linen. "The value of any commodity denoting its relation in exchange, we may speak of it as...corn-value, cloth-value, according to the commodity with which it is compared; and hence there are a thousand different kinds of value, as many kinds of value as there are commodities in existence, and all are equally real and equally nominal." (A Critical Dissertation on the Nature, Measure and Causes of Value; chiefly in reference to the writings of Mr. Ricardo and his followers. By the author of "Essays on the Formation, &c., of Opinions." London, 1825, p. 39.) S. Bailey, the author of this anonymous work, a work which in its day created much stir in England, fancied that, by thus pointing out the various relative expressions of one and the same value, he had proved the impossibility of any determination of the concept of value. However narrow his own views may have been, yet, that he laid his finger on some serious defects in the Ricardian Theory, is proved by the animosity with which he was attacked by Ricardo's followers. See the Westminster Review for example.

34.

It is by no means self-evident that this character of direct and universal exchangeability is, so to speak, a polar one, and as intimately connected with its opposite pole, the absence of direct exchangeability, as the positive pole of the magnet is with its negative counterpart. It may therefore be imagined that all commodities can simultaneously have this character impressed upon them, just as it can be imagined that all Catholics can be popes together. It is, of course, highly desirable in the eyes of the petit bourgeois, for whom the production of commodities is the ne plus ultra of human freedom and individual independence, that the inconveniences resulting from this character of commodities not being directly exchangeable, should be removed. Proudhon's socialism is a working out of this Philistine Utopia, a form of socialism which, as I have elsewhere shown, does not possess even the merit of originality. Long before his time, the task was attempted with much better success by Gray, Bray, and others. But, for all that, wisdom of this kind flourishes even now in certain circles under the name of "science." Never has any school played more tricks with the word science, than that of Proudhon, for

> "wo Begriffe fehlen
> Da stellt zur rechten Zeit ein Wort sich ein."

35.

Among the ancient Germans the unit for measuring land was what could be harvested in a day, and was called Tagwerk, Tagwanne

(jurnale, or terra jurnalis, or diornalis), Mannsmaad, &c. (See G. L. von Maurer Einleitung zur Geschichte der Mark‘, &c. Verfassung, München, 1859, p. 129-59.)

36.

When, therefore, Galiani says: Value is a relation between persons‘"La Ricchezza è una ragione tra due persone,"‘he ought to have added: a relation between persons expressed as a relation between things. (Galiani: Della Monets, p. 221, V. III. of Custodi's collection of "Scrittori Classici Italiani di Economia Politicia." Parte Moderna, Milano, 1803.)

37.

"What are we to think of a law that asserts itself only by periodical revolutions? It is just nothing but a law Nature, founded on the want of knowledge of those whose action is the subject of it." (Friedrich Engels: Umrisse zu einer Kritik der Nationa Lökonomie," in the "Deutsch-französische Jahrbücher," edited by Arnold Ruge and Karl Marx. Paris, 1844.

38.

Even Ricardo has his stories à la Robinson. "He makes the primitive hunter and the primitive fisher straightway, as owners of commodities, exchange fish and game in the proportion in which labour-time is incorporated in these exchange values. On this occasion he commits the anachronism of making these men apply to the calculation, so far as their implements have to be taken into account, the annuity tables in current use on the London Exchange in the year 1847. 'The

parallelograms of Mr. Owen' appear to be the only form of society, besides the bourgeois form, with which he was acquainted." (Karl Marx: "Critique," &c., p. 69-70.)

39.

"A ridiculous presumption has latterly got abroad that common property in its primitive form is specifically a Slavonian, or even exclusively Russian form. It is the primitive form that we can prove to have existed amongst Romans, Teutons, and Celts, and even to this day we find numerous examples, ruins though they be, in India. A more exhaustive study of Asiatic, and especially of Indian forms of common property, would show how from the different forms or primitive common property, different forms of its dissolution have been developed. Thus, for instance, the various original types of Roman and Teutonic private property are deducible from different forms of Indian common property," (Karl Marx. "Critique," &c., p. 29, footnote.)

40.

The insufficiency of Ricardo's analysis of the magnitude of value, and his analysis is by far the best, will appear from the 3rd and 4th book of this work. As regards values in general, it is the weak point of the classical school of political economy that it nowhere, expressly and with full consciousness, distinguishes between labour, as it appears in the value of a product and the same labour, as it appears in the use-value of that product. Of course the distinction is practically made since this school treats labour, at one time under its quantitative aspect, at another under its qualitative aspect. But it has not the least

idea, that when the difference between various kinds of labour is treated as purely quantitative, their qualitative unity or equality, and therefore their reduction to abstract human labour, is implied. For instance, Ricardo declares that he agrees with Destutt de Tracy in this proposition: "As it is certain that our physical and moral faculties are alone our original riches, the employment of those faculties, labour of some kind, is our only original treasure, and it is always from this employment that all those things are created, which we call riches.... It is certain, too, that all those things only represent the labour which has created them, and if they have a value, or even two distinct values, they can only derive them form that (the value) of the labour from which they emanate," (Ricardo, The Principles of Pol. Econ. 3 Ed. Lond. 1821, p. 334.) We would here only point out that Ricardo puts his own more profound interpretation upon the words of Destutt. What the latter really says is, that on the one hand all things which constitute wealth represent the labour that creates them, but that on the other hand, they acquire their "two different values" (use-value and exchange-value) from "the value of labour." He thus falls into the commonplace error of the vulgar economists, who assume the value of one commodity (in this case labour) in order to determine the values of the rest. But Ricardo reads him as if he had said, that labour(not the value of labour) is embodied both in use-value and exchange-value. Nevertheless, Ricardo himself pays so little attention to the two-fold character of the labour which has a two-fold embodiment, that he devotes the whole of his chapter on "Value and Riches, Their

Distinctive Properties," to a laborious examination of the trivialities of a J. B. Say. And at the finish he is quite astonished to find that Destutt on the one hand agrees with him as to labour being the source of value, and on the other hand with J. B. Say as to the notion of value.

41.

It is one of the chief failings of classical economy that it has never succeeded, by means of its analysis of commodities, and, in particular, of their value, in discovering that form under which value becomes exchange-value. Even Adam Smith and Ricardo, the best representatives of the school, treat the form of value as a thing of no importance, as having no connection with the inherent nature of commodities. The reason for this is not solely because their attention is entirely absorbed in the analysis of the magnitude of value. It lies deeper. The value form of the product of labour is not only the most abstract, but is also the most universal form, taken by the product in bourgeois production, and stamps that production as a particular species of social production, and thereby gives it its special historical character. If then we treat this mode of production as one eternally fixed by nature for every state of society, we necessarily overlook that which is the differentia specifica of the value-form, and consequently of the commodity-form, and of its further developments, money-form, capital-form, &c. We consequently find that economists, who are thoroughly agreed as to labour time being the measure of the magnitude of value, have the most strange and contradictory ideas of

money, the perfected form of the general equivalent. This is seen in a striking manner when they treat of banking, where the commonplace definitions of money will no longer hold water. This led to the rise of a restored mercantile system (Ganilh, &c.), which sees in value nothing but a social form, or rather the unsubstantial ghost of that form. Once for all I may here state, that by classical political economy, I understand that economy which, since the time of W. Petty, has investigated the real relations of production in bourgeois society, in contradistinction to vulgar economy, which deals with appearances only, ruminates without ceasing on the materials long since provided by scientific economy, and there seeks plausible explanations of the most obtrusive phenomena, for bourgeois daily use, but for the rest, confines itself to systematizing in a pedantic way, and proclaiming for everlasting truths, the trite ideas held by the self-complacent bourgeoisie with regard to their own world, to them the best of all possible worlds.

42.

"The economists have a singular manner of proceeding. There are for them only two kinds of institutions, those of art and those of nature. Feudal institutions are artificial institutions, those of the bourgeoisie are natural institutions. In this they resemble the theologians, who also establish two kinds of religion. Every religion but their own is an invention of men, while their own religion is an emanation from God.... Thus there has been history, but there is no longer any." Karl Marx, The Poverty of Philosophy, A Reply to 'La Philosophie de la

Misère' by Mr. Proudhon. 1847, p. 100. Truly comical is M. Bastiat, who imagines that the ancient Greeks and Romans lived by plunder alone. But when people plunder for centuries, there must always be something at hand for them to seize; the objects of plunder must be continually reproduced. It would thus appear that even Greeks and Romans had some process of production, consequently, an economy, which just as much constituted the material basis of their world, as bourgeois economy constitutes that of our modern world. Or perhaps Bastiat means, that a mode of production based on slavery is based on a system of plunder. In that case he treads on dangerous ground. If a giant thinker like Aristotle erred in his appreciation of slave labour, why should a dwarf economist like Bastiat be right in his appreciation of wage labour?‘I seize this opportunity of shortly answering an objection taken by a German paper in America, to my work, "Critique of Political Economy, 1859." In the estimation of that paper, my view that each special mode of production and the social relations corresponding to it, in short, that the economic structure of society, is the real basis on which the juridical and political superstructure is raised, and to which definite social forms of thought correspond; that the mode of production determines the character of the social, political, and intellectual life generally, all this is very true for our own times, in which material interests preponderate, but not for the middle ages, in which Catholicism, nor for Athens and Rome, where politics, reigned supreme. In the first place it strikes one as an odd thing for any one to suppose that these well-worn phrases about

the middle ages and the ancient world are unknown to anyone else. This much, however, is clear, that the middle ages could not live on Catholicism, nor the ancient world on politics. On the contrary, it is the mode in which they gained a livelihood that explains why here politics, and there Catholicism, played the chief part. For the rest, it requires but a slight acquaintance with the history of the Roman republic, for example, to be aware that its secret history is the history of its landed property. On the other hand, Don Quixote long ago paid the penalty for wrongly imagining that knight errantry was compatible with all economical forms of society.

43.

Observation on certain verbal disputes in Pol. Econ., particularly relating to value and to demand and supply. Lond., 1821, p. 16.

44.

S. Bailey, 1. c., p. 165.

The author of "Observations" and S. Bailey accuse Ricardo of converting exchange value from something relative into something obsolute. The opposite is the fact. He has explained the apparent relation between objects, such as diamonds and pearls, in which relation they appear as exchange values, and disclosed the true relation hidden behind the appearances, namely, their relation to each other as mere expressions of human labour. If the followers of Ricardo answer Bailey somewhat rudely, and by no means convincingly, the reason is to be sought in this, that they were unable

to find in Ricardo's own works any key to the hidden relations existing between value and its form, exchange value.

Part I,

Volume I Chapter II EXCHANGE.

I.II.1

IT is plain that commodities cannot go to market and make exchanges of their own account. We must, therefore, have recourse to their guardians, who are also their owners. Commodities are things, and therefore without power of resistance against man. If they are wanting in docility he can use force; in other words, he can take possession of them.*45 In order that these objects may enter into relation with each other as commodities, their guardians must place themselves in relation to one another, as persons whose will resides in those objects, and must behave in such a way that each does not appropriate the commodity of the other, and part with his own, except by means of an act done by mutual consent. They must, therefore, mutually recognise in each other the right of private proprietors. This juridical relation, which thus expresses itself in a contract, whether such contract be part of a developed legal system or not, is a relation between two wills, and is but the reflex of the real economical relation between the two. It is this economical relation that determines the subject matter comprised in each such juridical act.*46 The persons exist for one another merely as representatives of, and, therefore, as owners of, commodities. In the course of our investigation we shall find, in general, that the characters who appear

on the economic stage are but the personifications of the economical relations that exist between them.
I.II.2

What chiefly distinguishes a commodity from its owner is the fact, that it looks upon every other commodity as but the form of appearance of its own value. A born leveller and a cynic, it is always ready to exchange not only soul, but body, with any and every other commodity, be the same more repulsive than Maritornes herself. The owner makes up for this lack in the commodity of a sense of the concrete, by his own five and more senses. His commodity possesses for himself no immediate use-value. Otherwise, he would not being it to the market. It has use-value for others; but for himself its only direct use-value is that of being a depository of exchange value, and consequently, a means of exchange.*47 Therefore, he makes up his mind to part with it for commodities whose value in use is of service to him. All commodities are non-use-values for their owners, and use-values for their non-owners. Consequently, they must all change hands. But this change of hands is what constitutes their exchange, and the latter puts them in relation with each other as values, and realises them as values. Hence commodities must be realised as values before they can be realised as use-values.
I.II.3

On the other hand, they must show that they are use-values before they can be realised as values. For the labour spent upon them counts effectively, only in so far as it is spent in a form that is useful for others. Whether that labour is useful for others and its product consequently capable of satisfying the wants of others, can be proved only by the act of exchange.
I.II.4

Every owner of a commodity wishes to part with it in exchange only for those commodities whose use-value satisfies some want of his. Looked at in this way, exchange is for him simply a private transaction. On the other hand, he desires to realise the value of his commodity, to convert it into any other suitable commodity of equal value, irrespective of whether his own commodity has or has not any use-value for the owner of the other. From this point of view, exchange is for him a social transaction of a general character. But one and the same set of transactions cannot be simultaneously for all owners of commodities both exclusively private and exclusively social and general.
I.II.5

Let us look at the matter a little closer. To the owner of a commodity, every other commodity is, in regard to his own, a particular equivalent, and consequently his own commodity is the universal equivalent for all the others. But since this applies to every

owner, there is, in fact, no commodity acting as universal equivalent, and the relative value of commodities possesses no general form under which they can be equated as values and have the magnitude of their values compared. So far, therefore, they do not confront each other as commodities, but only as products or use-values. In their difficulties our commodity-owners think like Faust: "Im Anfang war die That." They therefore acted and transacted before they thought. Instinctively they conform to the laws imposed by the nature of commodities. They cannot bring their commodities into relation as values, and therefore as commodities, except by comparing them with some one other commodity as the universal equivalent. That we saw from the analysis of a universal equivalent. That we saw from the analysis of a commodity. But a particular commodity cannot become the universal equivalent except by a social act. The social action therefore of all other commodities, sets apart the particular commodity in which they all represent their values. Thereby the bodily form of this commodity becomes the form of the socially recognised universal equivalent. To be the universal equivalent, becomes, by this social process, the specific function of the commodity thus excluded by the rest. Thus it becomes‘money. "Illi unum consilium habent et virtutem et potestatem suam bestiæ tradunt. Et ne quis possit emere aut vendere, nisi qui habet characterem aut nomen bastiæ, aut numerum nominis ejus." (Apocalypse.)
I.II.6

Money is a crystal formed of necessity in the course of the exchanges, whereby different products of labour are practically equated to one another and thus by practice converted into commodities. The historical progress and extension of exchanges develops the contrast, latent in commodities, between use-value and value. The necessity for giving an external expression to this contrast for the purposes of commercial intercourse, urges on the establishment of an independent form of value, and finds no rest until it is once for all satisfied by the differentiation of commodities into commodities and money. At the same rate, then, as the conversion of products into commodities is being accomplished, so also is the conversion of one special commodity into money.*48
I.II.7

The direct barter of products attains the elementary form of the relative expression of value in one respect, but not in another. That form is x Commodity A = y Commodity B. The form of direct barter is x use-value A = y use-value B.*49 The articles A and B in this case are not as yet commodities, but become so only by the act of barter. The first step made by an object of utility towards acquiring exchange-value is when it forms a non-use-value for its owner, and that happens when it forms a superfluous portion of some article required for his immediate wants. Objects in themselves are external to man, and consequently alienable by him. In order that this alienation may be reciprocal, it is only necessary for men, by a tacit

understanding, to treat each other as private owners of those alienable objects, and by implication as independent individuals. But such a state of reciprocal independence has no existence in a primitive society based on property in common, whether such a society takes the form of a patriarchal family, an ancient Indian community, or a Peruvian Inca State. The exchange of commodities, therefore, first begins on the boundaries of such communities, at their points of contact with other similar communities, or with members of the latter. So soon, however, as products once become commodities in the external relations of a community, they also, by reaction, become so in its internal intercourse. The proportions in which they are exchangeable are at first quite a matter of chance. What makes them exchangeable is the mutual desire of their owners to alienate them. Meantime the need for foreign objects of utility gradually establishes itself. The constant repetition of exchange makes it a normal social act. In the course of time, therefore, some portion at least of the products of labour must be produced with a special view to exchange. From that moment the distinction becomes firmly established between the utility of an object for the purposes of consumption, and its utility for the purposes of exchange. Its use-value becomes distinguished from its exchange value. One the other hand, the quantitative proportion in which the articles are exchangeable, becomes dependent on their production itself. Custom stamps them as values with definite magnitudes.

I.II.8

In the direct barter of products, each commodity is directly a means of exchange to its owner, and to all other persons an equivalent, but that only in so far as it has use-value for them. At this stage, therefore, the articles exchanged do not acquire a value-form independent of their own use-value, or of the individual needs of the exchangers. The necessity for a value-form grows with the increasing number and variety of the commodities exchanged. The problem and the means of solution arise simultaneously. Commodity-owners never equate their own commodities to those of others, and exchange them on a large scale, without different kinds of commodities belong to different owners being exchangeable for, and equated as values to, one and the same special article. Such last-mentioned article, by becoming the equivalent of various other commodities, acquires at once, though within narrow limits, the character of a general social equivalent. This character comes and goes with the momentary social acts that called it into life. In turns and transiently it attaches itself first to this and then to that commodity. But with the development of exchange it fixes itself firmly and exclusively to particular sorts of commodities, and becomes crystallised by assuming the money-form. The particular kind of commodity to which it sticks is at first a matter of accident. Nevertheless there are two circumstances whose influence is decisive. The money-form attaches itself either to the most important articles of exchange from outside, and these in fact are primitive and natural forms in which the exchange-value of home

products finds expression; or else it attaches itself to the object of utility that forms, like cattle, the chief portion of indigenous alienable wealth. Nomad races are the first to develop the money-form, because all their worldly goods consist of movable objects and are therefore directly alienable; and because their mode of life, by continually bringing them into contact with foreign communities, solicits the exchange of products. Man has often made man himself, under the form of slaves, serve as the primitive material of money, but has never used land for that purpose. Such an idea could only spring up in a bourgeois society already well developed. It dates from the last third of the 17th century, and the first attempt to put it in practice on a national scale was made a century afterwards, during the French bourgeois revolution.
I.II.9

In proportion as exchange bursts its local bonds, and the value of commodities more and more expands into an embodiment of human labour in the abstract, in the same proportion the character of money attaches itself to commodities that are by nature fitted to perform the social function of a universal equivalent. Those commodities are the precious metals.
I.II.10

The truth of the proposition that, "although gold and silver are not by nature money, money is by nature gold and silver,"*50 is shown by

the fitness of the physical properties of these metals for the functions of money.*51 Up to this point, however, we are acquainted only with one function of money, namely, to serve as the form of manifestation of the value of commodities, or as the material in which the magnitudes of their values are socially expressed. An adequate form of manifestation of value, a fit embodiment of abstract, undifferentiated, and therefore equal human labour, that material alone can be whose every sample exhibits the same uniform qualities. On the other hand, since the difference between the magnitudes of value is purely quantitative, the money commodity must be susceptible of merely quantitative differences, must therefore be divisible at will, and equally capable of being re-united. Gold and silver possess these properties by nature.
I.II.11

The use-value of the money commodity becomes twofold. In addition to its special use-value as a commodity (gold, for instance, serving to stop teeth, to form the raw material of articles of luxury, &c.), it acquires a formal use-value, originating in its specific social function.
I.II.12

Since all commodities are merely particular equivalents of money, the latter being their universal equivalent, they, with regard to the latter as the universal commodity, play the parts of particular commodities.*52

We have seen that the money-form is but the reflex, thrown upon one single commodity, of the value relations between all the rest. That money is a commodity*53 is therefore a new discovery only for those who, when they analyse it, start from its fully developed shape. The act of exchange gives to the commodity converted into money, not its value, but its specific value-form. By confounding these two distinct things some writers have been led to hold that the value of gold and silver is imaginary.*54 The fact that money can, in certain functions, be replaced by mere symbols of itself, gave rise to that other mistaken notion, that it is itself a mere symbol. Nevertheless under this error lurked a presentiment that the money-form of an object is not an inseparable part of that object, but is simply the form under which certain social relations manifest themselves. In this sense every commodity is a symbol, since, in so far as it is value, it is only the material envelope of the human labour spent upon it.*55 But if it be declared that the social characters assumed by objects, or the material forms assumed by the social qualities of labour under the régime of a definite mode of production, are mere symbols, it is in the same breath also declared that these characteristics are arbitrary fictions sanctioned by the so-called universal consent of mankind. This suited the mode of explanation in favour during the 18th century. Unable to account for the origin of the puzzling forms assumed by social relations between man and man, people sought to denude them

of their strange appearance by ascribing to them a conventional origin.
I.II.14

It has already been remarked above that the equivalent form of a commodity does not imply the determination of the magnitude of its value. Therefore, although we may be aware that gold is money, and consequently directly exchangeable for all other commodities, yet that fact by no means tells how much 10 lbs, for instance, of gold is worth. Money, like every other commodity, cannot express the magnitude of its value except relatively in other commodities. This value is determined by the labour-time required for its production, and is expressed by the quantity of any other commodity that costs the same amount of labour-time.*56 Such quantitative determination of its relative value takes place at the source of its production by means of barter. When it steps into circulation as money, its value is already given. In the last decades of the 17th century it had already been shown that money is a commodity, but this step marks only the infancy of the analysis. The difficulty lies, not in comprehending that money is a commodity, but in discovering how, why and by what means a commodity becomes money.*57
I.II.15

We have already seen, from the most elementary expression of value, x commodity A = y commodity B, that the object in which the

magnitude of the value of another object is represented, appears to have the equivalent form independently of this relation, as a social property given to it by Nature. We followed up this false appearance to its final establishment, which is complete so soon as the universal equivalent form becomes identified with the bodily form of a particular commodity, and thus crystallised into the money-form. What appears to happen is, not that gold becomes money, in consequence of all other commodities expressing their values in it, but, on the contrary, that all other commodities universally express their values in gold, because it is money. The intermediate steps of the process vanish in the result and leave no trace behind. Commodities find their own value already completely represented, without any initiative on their part, in another commodity existing in company with them. These objects, gold and silver, just as they come out of the bowels of the earth, are forthwith the direct incarnation of all human labour. Hence the magic of money. In the form of society now under consideration, the behaviour of men in the social process of production is purely atomic. Hence their relations to each other in production assume a material character independent of their control and conscious individual action. These facts manifest themselves at first by products as a general rule taking the form of commodities. We have seen how the progressive development of a society of commodity-producers stamps one privileged commodity with the character of money. Hence the riddle presented by money is but the riddle presented by commodities; only it now strikes us in its most glaring form.

Notes for this chapter

45.
In the 12th century, so renowned for its piety, they included amongst commodities some very delicate things. Thus a French poet of the period enumerates amongst the goods to be fund in the market of Landit, not only clothing, shoes, leather, agricultural implements, &c., but also "femmes folles de leur corps."
46.
Proudhon begins by taking his ideal of justice, of "justice éternelle," from the juridical relations that correspond to the production of commodities: thereby, it may be noted, he proves, to the consolation of all good citizens, that the production of commodities is a form of production as everlasting as justice. Then he turns round and seeks to reform the actual production of commodities, and the actual legal system corresponding thereto, in accordance with this ideal. What opinion should we have of a chemist, who, instead of studying the actual laws of the molecular changes in the composition and decomposition of matter, and on that foundation solving definite problems, claimed to regulate the composition and decomposition of matter by means of the "eternal ideas," of "naturalité" and "affinité?" Do we really know any more about "usury," when we say it contradicts "justice éternelle,." "équité "mutualité éternelle," and other "vérités éternelles" than the fathers of the church did when

they said it was incompatible with "grâce éternelle," "foi éternelle," and "la volonté éternelle de Dieu?"

47.

For two-fold is the use of every object...The one is peculiar to the object as such, the other is not, as a sandal which may be worn, and is also exchangeable. Both are uses of the sandal, for even he who exchanges the sandal for the money or food he is in want of, makes use of the sandal as a sandal. But not in its natural way. For it has not been made for the sake of being exchanged." (Aristoteles, de Res., 1. i. c. 9.)

48.

From this we may form an estimate of the shrewdness of the petit-bourgeois socialism, which, while perpetuating the production of commodities, aims at abolishing the "antagonism" between money and commodities, and consequently, since money exists only by virtue of this antagonism, at abolishing money itself. We might just as well try to retain Catholicism without the Pope. For more on this point see my work, "Critique of Political Economy," p. 73,ff.

49.

So long as, instead of two distinct use-values being exchanged, a chaotic mass of articles are offered as the equivalent of a single article, which is often the case with savages, even the direct barter of products is in its first infancy.

50.

Karl Marx, 1. c. p. 212 "I metalli...naturalmente moneta," (Galiani, "Della moneta" in Custodi's Collection: Parte Moderna t. iii.)

51.

For further details on this subject see in my work cited above, the chapter on "The precious metals".

52.

"I! danaro é la merce universale (Verri, l. c. p. 16).

53.

"Silver and gold themselves (which we may call by the general name of bullion), are...commodities...rising and falling in...value...Bullion, then, may be reckoned to be of higher value where the smaller weight will purchase the greatest quantity of the product or manufacture of the countrey," &c. ("A Discourse of the General Notions of Money, Trade, and Exchange, as they stand in relations to each other." By a Merchant, Lond., 1695, p. 7.) "Silver and gold, coined or uncoined, though they are used for a measure of all other things, are no less a commodity than wine, oyl, tobacco, cloth, or stuffs." ("A Discourse concerning Trade, and that in particular of the East Indies," &c. London, 1689, p. 2.) "The stock and riches of the kingdom cannot properly be confined to money, nor ought gold and silver to be excluded from being merchandize." ("A Treatise concerning the East India Trade being a most profitable Trade." London, 1680, Reprint 1696, p. 4.)

54.

"L'oro e l'argento hanno valore come metalli anteriore all' esser moneta".(Galiani, l.c.). Locke says, "The universal consent of mankind gave to silver, on account of its qualities which made it suitable for money, an imaginary value." Law, on the other hand, "How could different nations give an imaginary value to any single thing...or how could this imaginary value have maintained itself" But the following shows how little he himself understood about the matter: "Silver was exchanged in proportion to value in use it possessed, consequently in proportion to its real value. By its adoption as money it received an additional value (une valeur additionelle)" (Jean Law: "Considérations sur le numéraire et le commerce" in E. Daire's Edit. of "Economistes Financiers du XVIII. siècle.," p. 470).

55.

L'Argent en (des denrées) est le signe." (V. de Forbonnais: "Eléments du Commerce, Nouv. Edit. Leyde, 1776," t. II., p. 143.) "Comme signe il est attiré par les denrées." (l.c., p. 155). "L'argent est un signe d'une chose et la représente." (Montesquieu: "Esprit des Lois," Oeuvres, Lond. 1767, t. II., p. 2.)"L'argent n'est pas simple signe, car il est lui-même richesse; il ne reprêsente pas les valeurs, il les équivaut." (Le Trosne, l.c., p. 910.) "The notion of value contemplates the valuable article as a mere symbol; the article counts not for what it is, but for what it is worth." (Hegel, l.c., p. 100.) Lawyers started long before economists the idea that money is a mere symbol, and that the value of the precious metals is purely imaginary. This they did in the sycophantic service of the crowned heads, supporting the

right of the latter to debase the coinage, during the whole of the middle ages, by the traditions of the Roman Empire and the conceptions of money to be found in the Pandects. "Qu' aucun puisse ni doive faire doute," says an apt scholar of theirs, Philip of Valois, in a decree of 1846, "que à nous et à notre majesté royale n' appartiennent seulement...icmestier, le fait, l'état, la provision et toute l'ordonnance des monnaies, de donner tel cours, et pour tel prix comme il nous plait et bon nous semble." It was a maxim of the Roman Law that the value of money was fixed by decree of the emperor. It was expressly forbidden to treat money as a commodity. "Pecunias vero nulli emere fas erit, nam in usu publico constitutas oportet non esse mercem." Some good work on this question has been done by G. F. Pagnini: "Saggio sopra il giusto pregio delle cose, 1751" Custodi "Parte Moderna," t. II. In the second part of his work Pagnini directs his polemics especially against the lawyers.

56.

"If a man can bring to London an ounce of Silver out of the Earth in Peru, in the same time that he can produce a bushel of Corn, then the one is the natural price of the other; now, if by reason of new or more easie mines a man can procure two ounces of silver as easily as he formerly did one, the corn will be as cheap at ten shillings the bushel as it was before at five shillings, cæteris paribus." William Petty: "A Treatise on Taxes and Contributions," Lond., 1662, p. 32.

57.

The learned Professor Roscher, after first informing us that "the false definitions of money may be divided into two main groups: those which make it more, and those which make it less, than a commodity," gives us a long and very mixed catalogue of works on the nature of money, from which it appears that he has not the remotest idea of the real history of the theory; and then he moralises thus : "For the rest, it is not to be denied that most of the later economists do not bear sufficiently in mind the peculiarities that distinguish money from other commodities" (it is then, after all, either more or less than a commodity!)..."So far, the semi-mercantilist reaction of Ganilh is not altogether without foundation." (Wilhelm Roscher: "Die Grundlagen der Nationaloekonomie," 3rd Edn., 1858, pp. 277-210) More! less! not sufficiently! so far! not altogether! What clearness and precision of ideas and language! And such electric professorial twaddle is modestly baptised by Mr. Roscher, "the anatomico-physiological method" of political economy! One discovery however, he must have credit for, namely, that money is "a pleasant commodity".

Part I,

Volume I Chapter III MONEY, OR THE CIRCULATION OF COMMODITIES.

SECTION 1. THE MEASURE OF VALUES.

I.III.1

THROUGHOUT this work, I assume, for the sake of simplicity, gold as the money-commodity.

I.III.2

The first chief function of money is to supply commodities with the material for the expression of their values, or to represent their values as magnitudes of the same denomination, qualitatively equal, and quantitatively comparable. It thus serves as a universal measure of value. And only by virtue of this function does gold, the equivalent commodity par excellence, become money.

I.III.3

It is not money that renders commodities commensurable. Just the contrary. It is because all commodities, as values, are realised human labour, and therefore commensurable, that their values can be measured by one and the same special commodity, and the latter be converted into the common measure of their values, i.e., into money. Money as a measure of value, is the phenomenal form that must of

necessity be assumed by that measure of value which is immanent in commodities, labour-time.*58
I.III.4

The expression of the value of a commodity in gold‘x commodity A=y money-commodity‘is its money-form or price. A single equation, such as 1 ton of iron=2 ounces of gold, now suffices to express the value of the iron in a socially valid manner. There is no longer any need for this equation to figure as a link in the chain of equations that express the values of all other commodities, because the equivalent commodity, gold, now has the character of money. The general form of relative value has resumed its original shape of simple or isolated relative value. On the other hand, the expanded expression of relative value, the endless series of equations, has now become the form peculiar to the relative value of the money-commodity. The series itself, too, is now given, and has social recognition in the prices of actual commodities. We have only to read the quotations of a price-list backwards, to find the magnitude of the value of money expressed in all sorts of commodities. But money itself has no price. In order to put it on an equal footing with all other commodities in this respect, we should be obliged to equate it to itself as its own equivalent.
I.III.5

The price or money-form of commodities is, like their form of value generally, a form quite distinct from their palpable bodily form; it is,

therefore, a purely ideal or mental form. Although invisible, the value of iron, linen and corn has actual existence in these very articles: it is ideally made perceptible by their equality with gold, a relation that, so to say, exists only in their own heads. Their owner must, therefore, lend them his tongue, or hang a ticket on them, before their prices can be communicated to the outside world.*59 Since the expression of the value of commodities in gold is a merely ideal act, we may use for this purpose imaginary or ideal money. Every trader knows, that he is far from having turned his goods into money, when he has expressed their value in a price or in imaginary money, and that it does not require the least bit of real gold, to estimate in that metal millions of pounds' worth of goods. When, therefore, money serves as a measure of value, it is employed only as imaginary or ideal money. This circumstance has given rise to the wildest theories.*60 But, although the money that performs the functions of a measure of value is only ideal money, price depends entirely upon the actual substance that is money. The value, or in other words, the quantity of human labour contained in a ton of iron, is expressed in imagination by such a quantity of the money-commodity as contains the same amount of labour as the iron. According, therefore, as the measure of value is gold, silver, or copper, the value of the ton of iron will be expressed by very different prices, or will be represented by very different quantities of those metals respectively.
I.III.6

If, therefore, two different commodities, such as gold and silver, are simultaneously measures of value, all commodities have two prices‘one a gold-price, the other a silver-price. These exist quietly side by side, so long as the ratio of the value of silver to that of gold remains unchanged, say, at 15:1. Every change in their ratio disturbs the ratio which exists between the gold-prices and the silver-prices of commodities, and thus proves, by facts, that a double standard of value is inconsistent with the functions of a standard.*61
I.III.7

Commodities with definite prices present themselves under the form: a commodity A=x gold; b commodity B=z gold; c commodity C=y gold, &c., where a, b, c, represent definite quantities of the commodities A, B, C and x, z, y, definite quantities of gold. The values of these commodities are, therefore, changed in imagination into so many different quantities of gold. Hence, in spite of the confusing variety of the commodities themselves, their values become magnitudes of the same denomination, gold-magnitudes. They are now capable of being compared with each other and measured, and the want becomes technically felt of comparing them with some fixed quantity of gold as a unit measure. This unit, by subsequent division into aliquot parts, becomes itself the standard or scale. Before they become money, gold, silver, and copper already possess such standard measures in their standards of weight, so that, for example, a pound weight, while serving as the unit, is, on the one hand, divisible into ounces, and, on

the other, may be combined to make up hundred weights.*62 It is owing to this that, in all metallic currencies, the names given to the standards of money or of price were originally taken from the pre-existing names of the standards of weight.
I.III.8

As measure of value and as standard of price, money has two entirely distinct functions to perform. It is the measure of value inasmuch as it is the socially recognised incarnation of human labour; it is the standard of price inasmuch as it is a fixed weight of metal. As the measure of value it serves to convert the values of all the manifold commodities into prices, into imaginary quantities of gold; as the standard of price it measures those quantities of gold. The measure of values measures commodities considered as values; the standard of price measures, on the contrary, quantities of gold by a unit quantity of gold, not the value of one quantity of gold by the weight of another. In order to make gold a standard of price, a certain weight must be fixed upon as the unit. In this case, as in all cases of measuring quantities of the same denomination, the establishment of an unvarying unit of measure is all-important. Hence, the less the unit is subject to variation, so much the better does the standard of price fulfill its office. But only in so far as it is itself a product of labour, and, therefore, potentially variable in value, can gold serve as a measure of value.*63
I.III.9

It is, in the first place, quite clear that a change in the value of gold does not, in any way, affect its function as a standard of price. No matter how this value varies, the proportions between the values of different quantities of the metal remain constant. However great the fall in its value, 12 ounces of gold still have 12 times the value of 1 ounce; and in prices, the only thing considered is the relation between different quantities of gold. Since, on the other hand, no rise or fall in the value of an ounce of gold can alter its weight, no alteration can take place in the weight of its aliquot parts. Thus gold always renders the same service as an invariable standard of price, however much its value may vary.
I.III.10

In the second place, a change in the value of gold does not interfere with its functions as a measure of value. The change affects all commodities simultaneously, and, therefore, cœteris paribus, leaves their relative values inter se, unaltered, although those values are now expressed in higher or lower gold-prices.
I.III.11

Just as when we estimate the value of any commodity by a definite quantity of the use-value of some other commodity, so in estimating the value of the former in gold, we assume nothing more than that the production of a given quantity of gold costs, at the given period,

a given amount of labour. As regards the fluctuations of prices generally, they are subject to the laws of elementary relative value investigated in a former chapter.
I.III.12

A general rise in the prices of commodities can result only, either from a rise in their values‘the value of money remaining constant‘or from a fall in the value of money, the values of commodities remaining constant. On the other hand, a general fall in prices can result only, either from a fall in the values of commodities‘the value of money remaining constant‘or from a rise in the value of money, the values of commodities remaining constant. It therefore by no means follows, that a rise in the value of money necessarily implies a proportional fall in the prices of commodities; or that a fall in the value of money implies a proportional rise in prices. Such change of price holds good only in the case of commodities whose value remains constant. With those, for example whose value rises, simultaneously with, and proportionally to, that of money, there is no alteration in price. And if their value rise either slower or faster than that of money, the fall or rise in their prices will be determined by the difference between the change in their value and that of money; and so on.
I.III.13

Let us now go back to the consideration of the price-form.

I.III.14

By degrees there arises a discrepancy between the current money names of the various weights of the precious metal figuring as money, and the actual weights which those names originally represented. This discrepancy is the result of historical causes, among which the chief are:‘(1) The importation of foreign money into an imperfectly developed community. This happened in Rome in its early days, where gold and silver coins circulated at first as foreign commodities. The names of these foreign coins never coincide with those of the indigenous weights. (2) As wealth increases, the less precious metal is thrust out by the more precious from its place as a measure of value, copper by silver, silver by gold, however much this order or sequence may be in contradiction with poetical chronology.*64 The word pound, for instance, was the money-name given to an actual pound weight of silver. When gold replaced silver as a measure of value, the same name was applied according to the ratio between the values of silver and gold, to perhaps 1-15th of a pound of gold. The word pound, as a money-name, thus becomes differentiated from the same word as a weight-name.*65 (3) The debasing of money carried on for centuries by kings and princes to such an extent that, of the original weights of the coins, nothing in fact remained but the names.

I.III.15

These historical causes convert the separation of the money name from the weight-name into an established habit with the community.*66 Since the standard of money is on the one hand purely conventional, and must on the other hand find general acceptance, it is in the end regulated by law. A given weight of one of the precious metals, an ounce of gold, for instance, becomes officially divided into aliquot parts, with legally bestowed names, such as pound, dollar, &c. These aliquot parts, which henceforth serve as units or money, are then subdivided into other aliquot parts with legal names, such as shilling, penny, &c.*67 But, both before and after these divisions are made, a definite weight of metal is the standard of metallic money. The sole alteration consists in the subdivision and denomination.
I.III.16

The prices, or quantities of gold, into which the values of commodities are ideally changed, are therefore now expressed in the names of coins, or in the legally valid names of the subdivisions of the gold standard. Hence, instead of saying: A quarter of wheat is worth an ounce of gold; we say, it is worth £3 17s. 10½d. In this way commodities express by their prices how much they are worth, and money serves as money of account whenever it is a question of fixing the value of an article in its money-form.*68
I.III.17

The name of a thing is something distinct from the qualities of that thing. I know nothing of a man, by knowing that his name is Jacob. In the same way with regard to money, every trace of a value-relation disappears in the names pound, dollar, franc, ducat, &c. The confusion caused by attributing a hidden meaning to these cabalistic signs is all the greater, because these money-names express both the values of commodities, and, at the same time, aliquot parts of the weight of the metal that is the standard of money.*69 On the other hand, it is absolutely necessary that value, in order that it may be distinguished from the varied bodily forms of commodities, should assume this material and unmeaning, but, at the same time, purely social form.*70

I.III.18

Price is the money-name of the labour realised in a commodity. Hence the expression of the equivalence of a commodity with the sum of money constituting its price, is a tautology,*71 just as in general the expression of the relative value of a commodity is a statement of the equivalence of two commodities. But although price, being the exponent of the magnitude of a commodity's value, is the exponent of its exchange-ratio with money, it does not follow that the exponent of this exchange-ratio is necessarily the exponent of the magnitude of the commodity's value. Suppose two equal quantities of socially necessary labour to be respectively represented by 1 quarter of wheat and £2 (nearly ½ oz. of gold), £2 is the expression in money of the

magnitude of the value of the quarter of wheat, or is its price. If now circumstances allow of this price being raised to £3, or compel it to be reduced to £1, then although £1 and £3 may be too small or too great properly to express the magnitude of the wheat's value, nevertheless they are its prices, for they are, in the first place, the form under which its value appears, i.e., money; and in the second place, the exponents of its exchange-ratio with money. If the conditions of production, in other words, if the productive power of labour remain constant, the same amount of social labour-time must, both before and after the change in price, be expended in the reproduction of a quarter of wheat. This circumstance depends, neither on the will of the wheat producer, nor on that of the owners of other commodities.
I.III.19

Magnitude of value expresses a relation of social production, it expresses the connection that necessarily exists between a certain article and the portion of the total labour-time of society required to produce it. As soon as magnitude of value is converted into price, the above necessary relation takes the shape of a more or less accidental exchange-ratio between a single commodity and another, the money-commodity. But this exchange-ratio may express either the real magnitude of that commodity's value, or the quantity of gold deviating from that value, for which, according to circumstances, it may be parted with. The possibility, therefore, of quantitative incongruity

between price and magnitude of value, or the deviation of the former from the latter, is inherent in the price-form itself. This is no defect, but, on the contrary, admirably adapts the price-form to a mode of production whose inherent laws impose themselves only as the mean of apparently lawless irregularities that compensate one another.
I.III.20

The price-form, however, is not only compatible with the possibility of a quantitative incongruity between magnitude of value and price, i.e., between the former and its expression in money, but it may also conceal a qualitative inconsistency, so much so, that, although money is nothing but the value-form of commodities, price ceases altogether to express value. Objects that in themselves are no commodities, such as conscience, honour, &c., are capable of being offered for sale by their holders, and of thus acquiring, through their price, the form of commodities. Hence an object may have a price without having value. The price in that case is imaginary, like certain quantities in mathematics. On the other hand, the imaginary price-form may sometimes conceal either a direct or indirect real value-relation; for instance, the price of uncultivated land, which is without value, because no human labour has been incorporated in it.
I.III.21

Price, like relative value in general, expresses the value of a commodity (e.g., a ton of iron), by stating that a given quantity of

the equivalent (e.g., an ounce of gold), is directly exchangeable for iron. But it by no means states the converse, that iron is directly exchangeable for gold. In order, therefore, that a commodity may in practice act effectively as exchange value, it must quit its bodily shape, must transform itself from mere imaginary into real gold, although to the commodity such transubstantiation may be more difficult than to the Hegelian "concept," the transition from "necessity" to "freedom," or to a lobster the casting of his shell, or to Saint Jerome the putting off of the old Adam.*72 Though a commodity may, side by side with its actual form (iron, for instance), take in our imagination the form of gold, yet it cannot at one and the same time actually be both iron and gold. To fix its price, it suffices to equate it to gold in imagination. But to enable it to render to its owner the service of a universal equivalent, it must be actually replaced by gold. If the owner of the iron were to go to the owner of some other commodity offered for exchange, and were to refer him to the price of the iron as proof that it was already money, he would get the same answer as St. Peter gave in heaven to Dante, When the latter recited the creed‘

"Assai bene è trascorsa
D'esta moneta già la lega e'l peso
Ma dimmi se tu l'hai nella tua borsa."

I.III.22

A price therefore implies both that a commodity is exchangeable for money, and also that it must be so exchanged. On the other hand, gold serves as an ideal measure of value, only because it has already, in the process of exchange, established itself as the money-commodity. Under the ideal measure of values there lurks the hard cash.

SECTION 2.‘THE MEDIUM OF CIRCULATION.

a. The Metamorphosis of Commodities.

I.III.23

We saw in a former chapter that the exchange of commodities implies contradictory and mutually exclusive conditions. The differentiation of commodities into commodities and money does not sweep away these inconsistencies, but develops a modus vivendi, a form in which they can exist side by side. This is generally the way in which real contradictions are reconciled. For instance, it is a contradiction to depict one body as constantly falling towards another, and as, at the same time, constantly flying away from it. The ellipse is a form of motion which, while allowing this contradiction to go on, at the same time reconciles it.

I.III.24

In so far as exchange is a process, by which commodities are transferred from hands in which they are non-use-values, to hands in which they become use-values, it is a social circulation of matter. The product of one form of useful labour replaces that of another. When once a commodity has found a resting-place, where it can serve as a use-value, it falls out of the sphere of exchange into that of consumption. But the former sphere alone interests us at present. We have, therefore, now to consider exchange from a formal point of view; to investigate the change of form or metamorphosis of commodities which effectuates the social circulation of matter.
I.III.25

The comprehension of this change of form is, as a rule, very imperfect. The cause of this imperfection is, apart from indistinct notions of value itself, that every change of form in a commodity results from the exchange of two commodities, an ordinary one and the money-commodity. If we keep in view the material fact alone that a commodity has been exchanged for gold we overlook the very thing that we ought to observe‘namely, what has happened to the form of the commodity. We overlook the facts that gold, when a mere commodity, is not money, and that when other commodities express their prices in gold, this gold is but the money-form of those commodities themselves.
I.III.26

Commodities, first of all, enter into the process of exchange just as they are. The process then differentiates them into commodities and money, and thus produces an external opposition corresponding to the internal opposition inherent in them, as being at once use-values and values. Commodities as use-values now stand opposed to money as exchange value. On the other hand, both opposing sides are commodities, unities of use-value and value. But this unity of differences manifests itself at two opposite poles, and at each pole in an opposite way. Being poles they are as necessarily opposite as they are connected. On the one side of the equation we have an ordinary commodity, which is in reality a use-value. Its value is expressed only ideally in its price, by which it is equated to its opponent, the gold, as to the real embodiment of its value. On the other hand, the gold, in its metallic reality ranks as the embodiment of value, as money. Gold, as gold, is exchange value itself. As to its use-value, that has only an ideal existence, represented by the series of expressions of relative value in which it stands face to face with all other commodities, the sum of whose uses makes up the sum of the various uses of gold. These antagonistic forms of commodities are the real forms in which the process of their exchange moves and takes place.
I.III.27

Let us now accompany the owner of some commodity‘say, our old friend the weaver of linen‘to the scene of action, the market. His 20

yards of linen has a definite price, £2. He exchanges it for the £2, and then, like a man of the good old stamp that he is, he parts with the £2 for a family Bible of the same price. The linen, which in his eyes is a mere commodity, a depository of value, he alienates in exchange for gold, which is the linen's value-form, and this form he again parts with for another commodity, the Bible, which is destined to enter his house as an object of utility and of edification to its inmates. The exchange becomes an accomplished fact by two metamorphoses of opposite yet supplementary character‘the conversion of the commodity into money, and the re-conversion of the money into a commodity.*73 The two phases of this metamorphosis are both of them distinct transactions of the weaver‘selling, or the exchange of the commodity for money; buying, or the exchange of the money for a commodity; and, the unity of the two acts, selling in order to buy.
I.III.28

The result of the whole transaction, as regards the weaver, is this, that instead of being in possession of the linen, he now has the Bible; instead of his original commodity, he now possesses another of same value but of different utility. In like manner he procures his other means of subsistence and means of production. From his point of view, the whole process effectuates nothing more than the exchange of the product of his labour for the product of some one else's, nothing more than an exchange of products.
I.III.29

The exchange of commodities is therefore accompanied by the following changes in their form.

Commodity‘Money‘Commodity.
C‘‘M‘‘C.

I.III.30

The result of the whole process is; so far as concerns the objects themselves, C‘C, the exchange of one commodity for another, the circulation of materialised social labour. When this result is attained, the process is at an end.

C‘M. First metamorphosis, or sale.

I.III.31

The leap taken by value from the body of the commodity, into the body of the gold, is, as I have elsewhere called it, the salto mortale of the commodity. If it falls short, then, although the commodity itself is not harmed, its owner decidedly is. The social division of labour causes his labour to be as one-sided as his wants are many-sided. This is precisely the reason why the product of his labour serves him solely as exchange value. But it cannot acquire the properties of a

socially recognised universal equivalent, except by being converted into money. That money, however, is in some one else's pocket. In order to entice the money out of that pocket, our friend's commodity must, above all things, be a use-value to the owner of the money. For this, it is necessary that the labour expended upon it, be of a kind that is socially useful, of a kind that constitutes a branch of the social division of labour. But division of labour is a system of production which has grown up spontaneously and continues to grow behind the backs of the producers. The commodity to be exchanged may possibly be the product of some new kind of labour, that pretends to satisfy newly arisen requirements, or even to give rise itself to new requirements. A particular operation, though yesterday, perhaps, forming one out of the many operations conducted by one producer in creating a given commodity, may to-day separate itself from this connection, may establish itself as an independent branch of labour and send its incomplete product to market as an independent commodity. The circumstances may or may not be ripe for such a separation. To-day the product satisfies a social want. To-morrow the article may, either altogether or partially, be superseded by some other appropriate product. Moreover, although our weaver's labour may be a recognised branch of the social division of labour, yet that fact is by no means sufficient to guarantee the utility of his 20 yards of linen. If the community's want of linen, and such a want has a limit like every other want, should already be saturated by the products of rival weavers, our friend's product is superfluous,

redundant, and consequently useless. Although people do not look a gift-horse in the mouth, our friend does not frequent the market for the purpose of making presents. But suppose his product turn out a real use-value, and thereby attracts money? The question arises, how much will it attract? No doubt the answer is already anticipated in the price of the article, in the exponent of the magnitude of its value. We leave out of consideration here any accidental miscalculation of value by our friend, a mistake that is soon rectified in the market. We suppose him to have spent on his product only that amount of labour-time that is on an average socially necessary. The price then, is merely the money-name of the quantity of social labour realised in his commodity. But without the leave, and behind the back, of our weaver, the old fashioned mode of weaving undergoes a change. The labour-time that yesterday was without doubt socially necessary to the production of a yard of linen, ceases to be so to-day, a fact which the owner of the money is only too eager to prove from the prices quoted by our friend's competitors. Unluckily for him, weavers are not few and far between. Lastly, suppose that every piece of linen in the market contains no more labour-time than is socially necessary. In spite of this, all these pieces taken as a whole, may have had superfluous labour-time spent upon them. If the market cannot stomach the whole quantity at the normal price of 2 shillings a yard, this proves that too great a portion of the total labour of the community has been expended in the form of weaving. The effect is the same as if each individual weaver had expended more labour-time

upon his particular product than is socially necessary. Here we may say, with the German proverb: caught together, hung together. All the linen in the market counts but as one article of commerce, of which each piece is only an aliquot part. And as a matter of fact, the value also of each yard is but the materialised form of the same definite and socially fixed quantity of homogeneous human labour.
I.III.32

We see then, commodities are in love with money, but "the course of true love never did run smooth." The quantitative division of labour is brought about in exactly the same spontaneous and accidental manner as its qualitative division. The owners of commodities therefore find out, that the same division of labour that turns them into independent private producers, also frees the social process of production and the relations of the individual producers to each other within that process, from all dependence on the will of those producers, and that the seeming mutual independence of the individuals is supplemented by a system of general and mutual dependence through or by means of the products.
I.III.33

The division of labour converts the product of labour into a commodity, and thereby makes necessary its further conversion into money. A t the same time it also makes the accomplishment of this trans-substantiation quite accidental. Here, however, we are only

concerned with the phenomenon in its integrity, and we therefore assume its progress to be normal. Moreover, if the conversion take place at all, that is, if the commodity be not absolutely unsaleable, its metamorphosis does take place although the price realised may be abnormally above or below the value.
I.III.34

The seller has his commodity replaced by gold, the buyer has his gold replaced by a commodity. The fact which here stares us in the face is, that a commodity and gold, 20 yards of linen and £2, have changed hands and places, in other words, that they have been exchanged. But for what is the commodity exchanged? For the shape assumed by its own value, for the universal equivalent. And for what is the gold exchanged? For a particular form of its own use-value. Why does gold take the form of money face to face with the linen? Because the linen's price of £2, its denomination in money, has already equated the linen to gold in its character of money. A commodity strips off its original commodity-form on being alienated, i.e., on the instant its use-value actually attracts the gold, that before existed only ideally in its price. The realisation of a commodity's price, or of its ideal value-form, is therefore at the same time the realisation of the ideal use-value of money; the conversion of a commodity into money, is the simultaneous conversion of money into a commodity. The apparently single process is in reality a double one. From the pole of the commodity owner it is a sale, from the opposite pole of

the money owner, it is a purchase. In other words, a sale is a purchase, C‘M is also M‘C.*74
I.III.35

Up to this point we have considered men in only one economical capacity, that of owners of commodities, a capacity in which they appropriate the produce of the labour of others, by alienating that of their own labour. Hence, for one commodity owner to meet with another who has money, it is necessary, either, that the product of the labour of the latter person, the buyer, should be in itself money, should be gold, the material of which money consists, or that his product should already have changed its skin and have stripped off its original form of a useful object. In order that it may play the part of money, gold must of course enter the market at some point or other. This point is to be found at the source of production of the metal, at which place gold is bartered, as the immediate product of labour, for some other product of equal value. From that moment it always represents the realised price of some commodity.*75 Apart from its exchange for other commodities at the source of its production, gold, in whose-so-ever hands it may be, is the transformed shape of some commodity alienated by its owner; it is the product of a sale or of the first metamorphosis C‘M.*76 Gold, as we saw, became ideal money, or a measure of values, in consequence of all commodities measuring their values by it, and thus contrasting it ideally with their natural shape as useful objects, and making it the shape of their

value. It became real money, by the general alienation of commodities, by actually changing places with their natural forms as useful objects, and thus becoming in reality the embodiment of their values. When they assume this money-shape, commodities strip off every trace of their natural use-value, and of the particular kind of labour to which they owe their creation, in order to transform themselves into the uniform, socially recognised incarnation of homogeneous human labour. We cannot tell from the mere look of a piece of money, for what particular commodity it has been exchanged. Under their money-form all commodities look alike. Hence, money may be dirt, although dirt is not money. We will assume that the two gold pieces, in consideration of which our weaver has parted with his linen, are the metamorphosed shape of a quarter of wheat. The sale of the linen, C‘M, is at the same time its purchase, M‘C. But the sale is the first act of a process that ends with a transaction of an opposite nature, namely, the purchase of a Bible; the purchase of the linen, on the other hand, ends a movement that began with a transaction of an opposite nature, namely, with the sale of the wheat. C‘M (linen‘ money), which is the first phase of C‘M‘C (linen‘money‘Bible), is also M‘C (money‘C (money‘linen), the last phase of another movement C‘M ‘C (wheat‘money‘linen). The first metamorphosis of one commodity into money, is therefore also invariably the second metamorphosis of some other commodity, the retransformation of the latter from money into a commodity.*77

M‘C, or purchase. The second and concluding metamorphosis of a commodity.

I.III.36

Because money is the metamorphosed shape of all other commodities, the result of their general alienation, for this reason it is alienable itself without restriction or condition. It reads all prices backwards, and thus, so to say, depicts itself in the bodies of all other commodities, which offer to it the material for the realisation of its own use-value. At the same time the prices, wooing glances cast at money by commodities, define the limits of its convertibility, by pointing to its quantity. Since every commodity, on becoming money, disappears as a commodity, it is impossible to tell from the money itself, how it got into the hands of its possessor, or what article has been changed into it. Non olet, from whatever source it may come. Representing on the other hand a sold commodity, it represents on the other hand a commodity to be bought.*78

I.III.37

M‘C, a purchase, is, at the same time, C‘M, a sale; the concluding metamorphosis of one commodity is the first metamorphosis of another. With regard to our weaver, the life of his commodity ends with the Bible, into which he has reconverted his £2. But suppose the seller of the Bible turns the £2 set free by the weaver into brandy. M

‘C, the concluding phase of C‘M‘C (linen, money, Bible), is also C‘M, the first phase of C‘M‘C (Bible, money, brandy). The producer of a particular commodity has that one article alone to offer; this he sells very often in large quantities, but his many and various wants compel him to split up the price realised, the sum of money set free, into numerous purchases. Hence a sale leads to many purchases of various articles. The concluding metamorphoses of various other commodities. I.III.38

If we now consider the completed metamorphosis of a commodity, as a whole, it appears in the first place, that it is made up of two opposite and complementary movements, C‘M and M‘C. These two antithetical transmutations of a commodity are brought about by two antithetical social acts on the part of the owner, and these acts in their turn stamp the character of the economical parts played by him. As the person who makes a sale, he is a seller; as the person who makes a purchase, he is a buyer. But just as, upon every such transmutation of a commodity, its two forms, commodity-form and money-form, exist simultaneously but at opposite poles, so every seller has a buyer opposed to him, and every buyer a seller. While one particular commodity is going through its two transmutations in succession, from a commodity into money and from money into another commodity, the owner of the commodity changes in succession his part from that of seller to that of buyer. These characters of seller and buyer are therefore not permanent, but attach

themselves in turns to the various persons engaged in the circulation of commodities.
I.III.39

The complete metamorphosis of a commodity, in its simplest form, implies four extremes, and three dramatis personæ. First, a commodity comes face to face with money; the latter is the form taken by the value of the former, and exists in all its hard reality, in the pocket of the buyer. A commodity-owner is thus brought into contact with a possessor of money. So soon, now, as the commodity has been changed into money, the money becomes its transient equivalent-form, the use-value of which equivalent-form is to be found in the bodies of other commodities. Money, the final term of the first transmutation, is at the same time the starting point for the second. The person who is a seller in the first transaction thus becomes a buyer in the second, in which a third commodity-owner appears on the scene as a seller.*79
I.III.40

The two phases, each inverse to the other, that make up the metamorphosis of a commodity constitute together a circular movement, a circuit: commodity-form, stripping off of this form, and return to the commodity-form. No doubt, the commodity appears here under two different aspects. At the starting point it is not a use-value to its owner; at the finishing point it is. So, too, the money appears

in the first phase as a solid crystal of value, a crystal into which the commodity eagerly solidifies, and in the second, dissolves into the mere transient equivalent-form destined to be replaced by a use-value. I.III.41

The two metamorphoses constituting the circuit are at the same time two inverse partial metamorphoses of two other commodities. One and the same commodity, the linen, opens the series of its own metamorphoses, and completes the metamorphosis of another (the wheat). In the first phase or sale, the linen plays there two parts in its own person. But, then, changed into gold, it completes its own second and final metamorphosis, and helps at the same time to accomplish the first metamorphosis of a third commodity. Hence the circuit made by one commodity in the course of its metamorphoses is inextricably mixed up with the circuits of other commodities. The total of all the different circuits constitutes the circulation of commodities. I.III.42

The circulation of commodities differs from the direct exchange of products (barter), not only in form, but in substance. Only consider the course of events. The weaver has, as a matter of fact, exchanged his linen for a Bible, his own commodity for that of some one else. But this is true only so far as he himself is concerned. The seller of the Bible, who prefers something to warm his inside, no more thought of exchanging his Bible for linen than our weaver knew that wheat

had been exchanged for his linen. B's commodity replaces that of A, but A and B do not mutually exchange those commodities. It may, of course, happen that A and B make simultaneous purchases, the one from the other; but such exceptional transactions are by no means the necessary result of the general conditions of the circulation of commodities. We see here, on the one hand, how the exchange of commodities breaks through all local and personal bounds inseparable from direct barter, and develops the circulation of the products of social labor; and on the other hand, how it develops a whole network of social relations spontaneous in their growth and entirely beyond the control of the actors. It is only because the farmer has sold his wheat that the weaver is enabled to sell his linen, only because the weaver has sold his linen that our Hotspur is enabled to sell his Bible, and only because the latter has sold the water of everlasting life that the distiller is enabled to sell his eau-de-vie, and so on.
I.III.43

The process of circulation, therefore, does not, like direct barter of products, become extinguished upon the use values changing places and hands. The money does not vanish on dropping out of the circuit of the metamorphosis of a given commodity. It is constantly being precipitated into new places in the arena of circulation vacated by other commodities. In the complete metamorphosis of the linen, for example, linen‘money‘Bible, the linen first falls out of circulation, and money steps into its place. Then the Bible falls out of circulation, and

again money taken its place. When one commodity replaces another, the money commodity always sticks to the hands of some third person.*80 Circulation sweats money from every pore.
I.III.44

Nothing can be more childish than the dogma, that because every sale is a purchase, and every purchase a sale, therefore the circulation of commodities necessarily implies an equilibrium of sales and purchases. If this means that the number of actual sales is equal to the number of purchases, it is mere tautology. But its real purport is to prove that every seller brings his buyer to market with him. Nothing of the kind. The sale and the purchase constitute one identical act, an exchange between a commodity-owned and an owner of money, between two persons as opposed to each other as the two poles of a magnet. They form two distinct acts, of polar and opposite characters, when performed by one single person. Hence the identity of sale and purchase implies that the commodity is useless, if, on being thrown into the alchemistical retort of circulation, it does not come out again in shape of money; if, in other words, it cannot be sold by its owner, and therefore be bought by the owner of the money. That identity further implies that the exchange, if it does take place, constitutes a period of rest, an interval, long or short, in the life of the commodity. Since the first metamorphosis of a commodity is at once a sale and a purchase, it is also an independent process in itself. The purchaser has the commodity, the seller has the money,

i.e., a commodity ready to go into circulation at any time. No one can sell unless some one else purchases. But no one is forthwith bound to purchase, because he has just sold. Circulation bursts through all restrictions as to time, place, and individuals, imposed by direct barter, and this it effects by splitting up, into the antithesis of a sale and a purchase, the direct identity that in barter does exist between the alienation of one's own and the acquisition of some other man's product. To say that these two independent and antithetical acts have an intrinsic unity, are essentially one, is the same as to say that this intrinsic oneness expresses itself in an external antithesis. If the interval in time between the two complementary phases of the complete metamorphosis of a commodity becomes too great, if the split between the sale and the purchase becomes too pronounced, the intimate connexion between them, their oneness, asserts itself by producing‘a crisis. The antithesis, use-value and value; the contradictions that private labour is bound to manifest itself as direct social labour, that a particularized concrete kind of labour has to pass for abstract human labour; the contradiction between the personification of objects and the representation of persons by things; all these antitheses and contradictions, which are immanent in commodities, assert themselves, and develop their modes of motion, in the antithetical phases of the metamorphosis of a commodity. These modes therefore imply the possibility, and no more than the possibility, of crisis. The conversion of this mere possibility into a

reality is the result of a long series of relations, that, from our present standpoint of simple circulation, have as yet no existence.*81

b. The currency*82 of money.

I.III.45

The change of form, C‘M‘C, by which the circulation of the material products of labour is brought about, requires that a given value in the shape of a commodity shall begin the process, and shall, also in the shape of a commodity, end it. The movement of the commodity is therefore a circuit. On the other hand, the form of this movement precludes a circuit from being made by the money. The result is not the return of the money, but its continued removal further and further away from its starting-point. So long as the seller sticks fast to his money, which is the transformed shape of his commodity, that commodity is still in the first phase of its metamorphosis, and has completed only half its course. But so soon as he completes the process, so soon as he supplements his sale by a purchase, the money again leaves the hands of its possessor. It is true that if the weaver, after buying the Bible, sells more linen, money comes back into his hands. But this return is not owing to the circulation of the first 20 yards of linen; that circulation resulted in the money getting into the hands of the seller of the Bible. The return of money into the hands of the weaver is brought about only by the renewal or

repetition of the process of circulation with a fresh commodity, which renewed process ends with the same result as its predecessor did. Hence the movement directly imparted to money by the circulation of commodities takes the form of a constant motion away from its starting point, of course from the hands of one commodity owner into those of another. This course constitutes its currency (cours de la monnaie).
I.III.46

The currency of money is the constant and monotonous repetition of the same process. The commodity is always in the hands of the seller; the money, as a means of purchase, always in the hands of the buyer. And money serves as a means of purchase by realising the price of the commodity. This realisation transfers the commodity from the seller to the buyer, and removes the money from the hands of the buyer into those of the seller, where it again goes through the same process with another commodity. That this one-sided character of the moneys motion arises out of the two-sided character of the commodity's motion, is a circumstance that is veiled over. The very nature of the circulation of commodities begets the opposite appearance. The first metamorphosis of a commodity is visibly, not only the money's movement, but also that of the commodity itself; in the second metamorphosis, on the contrary, the movement appears to us as the movement of the money alone. In the first phase of its circulation the commodity changes place with the money. Thereupon

the commodity, under its aspect of a useful object, falls out of circulation into consumption.*83 In its stead we have its value-shape‘ the money. It then goes through the second phase of its circulation, not under its own natural shape, but under the shape of money. The continuity of the movement is therefore kept up by the money alone, and the same movement that as regards the commodity consists of two processes of an antithetical character, is, when considered as the movement of the money, always one and the same process, a continued change of places with ever fresh commodities. Hence the result brought about by the circulation of commodities, namely, the replacing of one commodity by another, takes the appearance of having been effected not by means of the change of form of the commodities, but rather by the money acting as a medium of circulation, by an action that circulates commodities, to all appearance motionless in themselves, and transfers them from hands in which they are non-use-values, to hands in which they are use-values; and that in a direction constantly opposed to the direction of the money. The latter is continually withdrawing commodities from circulation and stepping into their places, and in this way continually moving further and further from its starting-point. Hence, although the movement of the money is merely the expression of the circulation of commodities, yet the contrary appears to be the actual fact, and the circulation of commodities seems to be the result of the movement of the money.*84

I.III.47

Again, money functions as a means of circulation, only because in it the values of commodities have independent reality. Hence its movement, as the medium of circulation, is, in fact, merely the movement of commodities while changing their forms. This fact must therefore make itself plainly visible in the currency of money. The twofold change of form in a commodity is reflected in the twice repeated change of place of the same piece of money during the complete metamorphosis of a commodity, and in its constantly repeated change of place, as metamorphosis follows metamorphosis, and each becomes interlaced with the others.
I.III.48

The linen, for instance, first of all exchanges its commodity-form for its money-form. The last term of its first metamorphosis (C‘M), or the money-form, is the first term of its final metamorphosis (M‘C), of its re-conversion into a useful commodity, the Bible. But each of these changes of form is accomplished by an exchange between commodity and money, by their reciprocal displacement. The same pieces of coin, in the first act, changed places with the linen, in the second, with the Bible. They are displaced twice. The first metamorphosis puts them into the weaver's pocket, the second draws them out of it. The two inverse changes undergone by the same commodity are reflected in the displacement, twice repeated, but in opposite directions, of the same pieces of coin.

I.III.49

If, on the contrary, only one phase of the metamorphosis is gone through, if there are only sales or only purchases, then a given piece of money changes its place only once. Its second change corresponds to and expresses the second metamorphosis of the commodity, its re-conversion from money into another commodity intended for use. It is a matter of course, that all this is applicable to the simple circulation of commodities alone, the only form that we are now considering.
I.III.50

Every commodity, when it first steps into circulation, and undergoes its first change of form, does so only to fall out of circulation again and to be replaced by other commodities. Money, on the contrary, as the medium of circulation, keeps continually within the sphere of circulation, and moves about in it. The question therefore arises, how much money this sphere constantly absorbs?
I.III.51

In a given country there take place every day at the same time, but in different localities, numerous one-sided metamorphoses of commodities, or, in other words, numerous sales and numerous purchases. The commodities are equated beforehand in imagination, by their prices, to definite quantities of money. And since, in the form of circulation now under consideration, money and commodities always

come bodily face to face, one at the positive pole of purchase, the other at the negative pole of sale, it is clear that the amount of the means of circulation required, is determined beforehand by the sum of the prices of all these commodities. As a matter of fact, the money in reality represents the quantity or sum of gold ideally expressed beforehand by the sum of the prices of the commodities. The equality of these two sums is therefore self-evident. We know, however, that, the values of commodities remaining constant, their prices vary with the value of gold (the material of money), rising in proportion as it falls, and falling in proportion as it rises. Now if, in consequence of such a rise or fall in the value of gold, the sum of the prices of commodities fall or rise, the quantity of money in currency must fall or rise to the same extent. The change in the quantity of the circulating medium is, in this case, it is true, caused by money itself, yet not in virtue of its function as a medium of circulation, but of its function as a measure of value. First, the price of the commodities varies inversely as the value of the money, and then the quantity of the medium of circulation varies directly as the price of the commodities. Exactly the same thing would happen if, for instance, instead of the value of gold falling, gold were replaced by silver as the measure of value, or if, instead of the value of silver rising, gold were to thrust silver out from being the measure of value. In the one case, more silver would be current than gold was before; in the other case, less gold would be current than silver was before. In each case the value of the material of money, i.e., the value of the commodity

that serves as the measure of value, would have undergone a change, and therefore, so, too, would the prices of commodities which express their values in money, and so, too, would the quantity of money current whose function it is to realise those prices. We have already seen, that the sphere of circulation has an opening through which gold (or the material of money generally) enters into it as a commodity with a given value. Hence, when money enters on its functions as a measure of value, when it expresses prices, its value is already determined. If now its value fall, this fact is first evidenced by a change in the prices of those commodities that are directly bartered for the precious metals at the sources of their production. The greater part of all other commodities, especially in the imperfectly developed stages of civil society, will continue for a long time to be estimated by the former antiquated and illusory value of the measure of value. Nevertheless, one commodity infects another through their common value-relation, so that their prices, expressed in gold or in silver, gradually settle down into the proportions determined by their comparative values, until finally the values of all commodities are estimated in terms of the new value of the metal that constitutes money. This process is accompanied by the continued increase in the quantity of the precious metals, an increase caused by their streaming in to replace the articles directly bartered for them at their sources of production. In proportion therefore as commodities in general acquire their true prices, in proportion as their values become estimated according to the fallen value of the precious metal, in the same

proportion the quantity of that metal necessary for realising those new prices is provided beforehand. A one-sided observation of the results that followed upon the discovery of fresh supplies of gold and silver, led some economists in the 17th, and particularly in the 18th century, to the false conclusion, that the prices of commodities had gone up in consequence of the increased quantity of gold and silver serving as means of circulation. Henceforth we shall consider the value of gold to be given, as, in fact, it is momentarily whenever we estimate the price of a commodity.
I.III.52

On this supposition then, the quantity of the medium of circulation is determined by the sum of the prices that have to be realised. If now we further suppose the price of each commodity to be given, the sum of the prices clearly depends on the mass of commodities in circulation. It requires but little racking of brains to comprehend that if one quarter of wheat cost £2, 100 quarters will cost £200, 200 quarters £400, and so on, that consequently the quantity of money that changes place with the wheat, when sold, must increase with the quantity of that wheat.
I.III.53

If the mass of commodities remain constant, the quantity of circulating money varies with the fluctuations in the prices of those commodities. It increases and diminishes because the sum of the prices increases or

diminishes in consequence of the change of price. To produce this effect, it is by no means requisite that the prices of all commodities should rise or fall simultaneously. A rise or fall in the prices of a number of leading articles, is sufficient in the one case to increase, in the other to diminish, the sum of the prices of all commodities, and, therefore, to put more or less money in circulation. Whether the change in the price correspond to an actual change of value in the commodities, or whether it be the result of mere fluctuations in market prices, the effect on the quantity of the medium of circulation remains the same.
I.III.54

Suppose the following articles to be sold or partially metamorphosed simultaneously in different localities: say, one quarter of wheat, 20 yards of linen, one Bible, and 4 gallons of brandy. If the price of each article be £2, and the sum of the prices to be realised be consequently £8, it follows that £8 in money must go into circulation. If, on the other hand, these same articles are links in the following chain of metamorphoses: 1 quarter of wheat‘£2‘20 yards of linen‘£2‘1 Bible‘£2‘4 gallons of brandy‘£2, a chain that is already well-known to us, in that case the £2 cause the different commodities to circulate one after the other, and after realizing their prices successively, and therefore the sum of those prices, £8, they come to rest at last in the pocket of the distiller. The £2 thus make four moves. This repeated change of place of the same pieces of money corresponds to

the double change in form of the commodities, to their motion in opposite directions through two stages of circulation, and to the interlacing of the metamorphoses of different commodities.*85 These antithetic and complementary phases, of which the process of metamorphosis consists, are gone through, not simultaneously, but successively. Time is therefore required for the completion of the series. Hence the velocity of the currency of money is measured by the number of moves made by a given piece of money in a given time. Suppose the circulation of the 4 articles takes a day. The sum of the prices to be realised in the day is £8, the number of moves of the two pieces of money is for, and the quantity of money circulating is £2. Hence, for a given interval of time during the process of circulation, we have the following relation: the quantity of money functioning as the circulating medium is equal to the sum of the prices of the commodities divided by the number of moves made by coins of the same denomination. This law holds generally.
I.III.55

The total circulation of commodities in a given country during a given period is made up on the one hand of numerous isolated and simultaneous partial metamorphoses, sales which are at the same time purchases, in which each coin changes its place only once, or makes only one move; on the other hand, of numerous distinct series of metamorphoses partly running side by side, and partly coalescing with each other, in each of which series each coin makes a number of

moves, the number being greater or less according to circumstances. The total number of moves made by all the circulating coins of one denomination being given, we can arrive at the average number of moves made by a single coin of that denomination, or at the average velocity of the currency of money. The quantity of money thrown into the circulation at the beginning of each day is of course determined by the sum of the prices of all the commodities circulating simultaneously side by side. But once in circulation, coins are, so to say, made responsible for one another. If the one increase its velocity, the other either retards its own, or altogether falls out of circulation; for the circulation can absorb only such a quantity of gold as when multiplied by the mean number of moves made by one single coin or element, is equal to the sum of the prices to be realised. Hence if the number of moves made by the separate pieces increase, the total number of those pieces in circulation diminishes. If the number of the moves diminish, the total number of pieces increases. Since the quantity of money capable of being absorbed by the circulation is given for a given mean velocity of currency, all that is necessary in order to abstract a given number of sovereigns from the circulation is to throw the same number of one-pound notes into it, a trick well known to all bankers.
I.III.56

Just as the currency of money, generally considered, is but a reflex of the circulation of commodities, or of the antithetical metamorphoses

they undergo, so, too, the velocity of that currency reflects the rapidity with which commodities change their forms, the continued interlacing of one series of metamorphoses with another, the hurried social interchange of matter, the rapid disappearance of commodities from the sphere of circulation, and the equally rapid substitution of fresh ones in their places. Hence, in the velocity of the currency we have the fluent unity of the antithetical and complementary phases, the unity of the conversion of the useful aspect of commodities into their value-aspect, and their re-conversion from the latter aspect to the former, or the unity of the two processes of sale and purchase. On the other hand, the retardation of the currency reflects the separation of these two processes into isolated antithetical phases, reflects the stagnation in the change of form, and therefore, in the social interchange of matter. The circulation itself, of course, gives no clue to the origin of this stagnation; it merely puts in evidence the phenomenon itself. The general public, who, simultaneously, with the retardation of the currency, see money appear and disappear less frequently at the periphery of circulation, naturally attribute this retardation to a quantitive deficiency in the circulating medium.*86 I.III.57

The total quantity of money functioning during a given period as the circulating medium, is determined, on the one hand, by the sum of the prices of the circulating commodities, and on the other hand, by the rapidity with which the antithetical phases of the metamorphoses

follow one another. On this rapidity depends what proportion of the sum of the prices can, on the average, be realised by each single coin. But the sum of the prices of the circulating commodities depends on the quantity, as well as on the prices, of the commodities. These three factors, however, state of prices, quantity of circulating commodities, and velocity of money-currency, are all variable. Hence, the sum of the prices to be realised, and consequently the quantity of the circulating medium depending on that sum, will vary with the numerous variations of these three factors in combination. Of these variations we shall consider those alone that have been the most important in the history of prices.
I.III.58

While prices remain constant, the quantity of the circulating medium may increase owing to the number of circulating commodities increasing, or to the velocity of currency decreasing, or to a combination of the two. On the other hand the quantity of the circulating medium may decrease with a decreasing number of commodities, or with an increasing rapidity of their circulation.
I.III.59

With a general rise in the prices of commodities, the quantity of the circulating medium will remain constant, provided the number of commodities in the circulation decrease proportionally to the increase in their prices, or provided the velocity of currency increase at the

same rate as prices rise, the number of commodities in circulation remaining constant. The quantity of the circulating medium may decrease, owing to the number of commodities decreasing more rapidly; or to the velocity of currency increasing more rapidly, than prices rise.
I.III.60

With a general fall in the prices of commodities, the quantity of the circulating medium will remain constant, provided the number of commodities increase proportionately to their fall in price, or provided the velocity of currency decrease in the same proportion. The quantity of the circulating medium will increase, provided the number of commodities increase quicker, or the rapidity of circulation decrease quicker, than the prices fall.
I.III.61

The variations of the different factors may mutually compensate each other, so that notwithstanding their continued instability, the sum of the prices to be realised and the quantity of money in circulation remains constant; consequently, we find, especially if we take long periods into consideration, that the deviations from the average level, of the quantity of money current in any country, are much smaller than we should at first sight expect, apart of course from excessive perturbations periodically arising from industrial and commercial crises, or, less frequently, from fluctuations in the value of money.

I.III.62

The law, that the quantity of the circulating medium is determined by the sum of the prices of the commodities circulating, and the average velocity of currency*87 may also be stated as follows: given the sum of the values of commodities, and the average rapidity of their metamorphoses, the quantity of precious metal current as money depends on the value of that precious metal. The erroneous opinion that it is, on the contrary, prices that are determined by the quantity of the circulating medium, and that the latter depends on the quantity of the precious metals in a country;*88 this opinion was based by those who first beheld it, on the absurd hypothesis that commodities are without a price, and money without a value, when they first enter into circulation, and that, one in the circulation, an aliquot part of the medley of commodities is exchanged for an aliquot part of the heap of precious metals.*89

c. Coin and symbols of value.

I.III.63

That money takes the shape of coin, springs from its function as the circulating medium. The weight of gold represented in imagination by the prices or money-names of commodities, must confront those commodities, within the circulation, in the shape of coins or pieces of

gold of a given denomination. Coining, like the establishment of a standard of prices, is the business of the State. The different national uniforms worn at home by gold and silver as coins, and doffed again in the market of the world, indicate the separation between the internal or national spheres of the circulation of commodities, and their universal sphere.
I.III.64

The only difference, therefore, between coin and bullion, is one of shape, and gold can at any time pass from one form to the other.*90 But no sooner does coin leave the mint, than it immediately finds itself on the high-road to the melting pot. During their currency, coins wear away, some more, others less. Name and substance, nominal weight and real weight, begin their process of separation. Coins of the same denomination become different in value, because they are different in weight. The weight of gold fixed upon as the standard of prices, deviates from the weight that serves as the circulating medium, and the latter thereby ceases any longer to be a real equivalent of the commodities whose prices it realises. The history of coinage during the middle ages and down into the 18th century, records the ever renewed confusion arising from this cause. The natural tendency of circulation to convert coins into a mere semblance of what they profess to be, into a symbol of the weight of metal they are officially supposed to contain, is recognised by modern legislation, which fixes

the loss of weight sufficient to demonetise a gold coin, or to make it no longer legal tender.
I.III.65

The fact that the currency of coins itself effects a separation between their nominal and their real weight, creating a distinction between them as mere pieces of metal on the one hand, and as coins with a definite function on the other‘this fact implies the latent possibility of replacing metallic coins by tokens of some other material, by symbols serving the same purposes as coins. The practical difficulties in the way of coining extremely minute quantities of gold or silver, and the circumstance that at first the less precious metal is used as a measure of value instead of the more precious, copper instead of silver, silver instead of gold, and that the less precious circulates as money until dethroned by the more precious‘all these facts explain the parts historically played by silver and cooper tokens as substitutes for gold coins. Silver and copper tokens take the place of gold in those regions of the circulation where coins pass from hand to hand most rapidly, and are subject to the maximum amount of wear and tear. This occurs where sales and purchases on a very small scale are continually happening. In order to prevent these satellites from establishing themselves permanently in the place of gold, positive enactments determine the extent to which they must be compulsorily received as payment instead of gold. The particular tracks pursued by the different species of coin in currency, run naturally into each other.

The tokens keep company with gold, to pay fractional parts of the smallest gold coin; gold is, on the one hand, constantly pouring into retail circulation, and on the other hand is as constantly being thrown out again by being changed into tokens.*91
I.III.66

The weight of metal in the silver and copper tokens is arbitrarily fixed by law. When in currency, they wear away even more rapidly than gold coins. Hence their functions are totally independent of their weight, and consequently of all value. The function of gold as coin becomes completely independent of the metallic value of that gold. Therefore things that are relatively without value, such as paper notes, can serve as coins in its place. This purely symbolic character is to a certain extent masked in metal tokens. In paper money it stands out plainly. In fact, ce n'est oue le premier pas qui coûte.
I.III.67

We allude here only to inconvertible paper money issued by the State and having compulsory circulation. It has its immediate origin in the metallic currency. Money based upon credit implies on the other hand conditions, which from our standpoint of the simple circulation of commodities, are as yet totally unknown to us. But we may affirm this much, that just as true paper money takes its rise in the function of money as the circulating medium, so money based upon credit takes

root spontaneously in the function of money as the means of payment.*92
I.III.68

The State puts in circulation bits of paper on which their various denominations, say £1, £5, &c., are printed. In so far as they actually take the place of gold to the same amount, their movement is subject to the laws that regulate the currency of money itself. A law peculiar to the circulation of paper money can spring up only from the proportion in which that paper money represents gold. Such a law exists; stated simply, it is as follows: the issue of paper money must not exceed in amount the gold (or silver as the case may be) which would actually circulate if not replaced by symbols. Now the quantity of gold which the circulation can absorb, constantly fluctuates about a given level. Still, the mass of the circulating medium in a given country never sinks below a certain minimum easily ascertained by actual experience. The fact that this minimum mass continually undergoes changes in its constituent parts, or that the pieces of gold of which it consists are being constantly replaced by fresh ones, causes of course no change either in its amount or in the continuity of its circulation. It can therefore be replaced by paper symbols. If, on the other hand, all the conduits of circulation were to-day filled with paper money, to the full extent of their capacity for absorbing money, they might to-morrow be overflowing in consequence of a fluctuation in the circulation of commodities. There would no longer be

any standard. If the paper money exceed its proper limit, which is the amount of gold coins of the like denomination that can actually be current, it would, apart from the danger of falling into general disrepute, represent only that quantity of gold, which, in accordance with the laws of the circulation of commodities, is required, and is alone capable of being represented by paper. If the quantity of paper money issued be double what it ought to be, then, as a matter of fact, £1 would be the money-name not of ¼ of an ounce, but of 1/8 of an ounce of gold. The effect would be the same as if an alteration had taken place in the function of gold as a standard of prices. Those values that were previously expressed by the price of £1 would now be expressed by the price of £2.
I.III.69

Paper-money is a token representing gold or money. The relation between it and the values of commodities is this, that the latter are ideally expressed in the same quantities of gold that are symbolically represented by the paper. Only in so far as paper-money represents gold, which like all other commodities has value, is it a symbol of value.*93
I.III.70

Finally, some one may ask why gold is capable of being replaced by tokens that have no value? But, as we have already seen, it is capable of being so replaced only in so far as it functions exclusively

as coin, or as the circulating medium, and as nothing else. Now, money has other functions besides this one, and the isolated function of serving as the mere circulating medium is not necessarily the only one attached to gold coin, although this is the case with those abraded coins that continue to circulate. Each piece of money is a mere coin, or means of circulation, only so long as it actually circulates. But this is just the case with that minimum mass of gold, which is capable of being replaced by paper-money. That mass remains constantly within the sphere of circulation, continually functions as a circulating medium, and exists exclusively for that purpose. Its movement therefore represents nothing but the continued alteration of the inverse phases of the metamorphosis C‘M‘C, phases in which commodities confront their value-forms, only to disappear again immediately. The independent existence of the exchange value of a commodity is here a transient apparition, by means of which the commodity is immediately replaced by another commodity. Hence, in this process which continually makes money pass from hand to hand, the mere symbolical existence of money suffices. Its functional existence absorbs, so to say, its material existence. Being a transient and objective reflex of the prices of commodities, it serves only as a symbol of itself, and is therefore capable of being replaced by a token.*94 One thing is, however, requisite; this token must have an objective social validity of its own, and this the paper symbol acquires by its forced currency. This compulsory action of the State can take effect only within that inner sphere of circulation which is co-

terminous with the territories of the community, but it is also only within that sphere that money completely responds to its function of being the circulating medium, or becomes coin.

SECTION 3.‘MONEY.

I.III.71

The commodity that functions as a measure of value, and, either in its own person or by a representative, as the medium of circulation, is money. Gold (or silver) is therefore money. It functions as money, on the one hand, when it has to be present in its own golden person. It is then the money-commodity, neither merely ideal, as in its function of a measure of value, nor capable of being represented, as in its function of circulating medium. On the other hand, it also functions as money, when by virtue of its function, whether that function be performed in person or by representative, it congeals into the sole form of value, the only adequate form of existence of exchange-value, in opposition to use-value, represented by all other commodities.

a. Hoarding.

I.III.72

The continual movement in circuits of the two antithetical metamorphoses of commodities, or the never ceasing alternation of sale and purchase, is reflected in the restless currency of money, or in the function that money performs of a perpetuum mobile of circulation. But so soon as the series of metamorphoses is interrupted, so soon as sales are not supplemented by subsequent purchases, money ceases to be mobilised; it is transformed, as Boisguillebert says, from "meuble" into "immeuble," from movable into immovable, from coin into money.
I.III.73

With the very earliest development of the circulation of commodities, there is also developed the necessity, and the passionate desire, to hold fast the product of the first metamorphosis. This product is the transformed shape of the commodity, or its gold-chrysalis.*95 Commodities are thus sold not for the purpose of buying others, but in order to replace their commodity-form by their money-form. From being the mere means of effecting the circulation of commodities, this change of form becomes the end and aim. The changed form of the commodity is thus prevented from functioning as its unconditionally alienable form, or as its merely transient money-form. The money becomes petrified into a hoard, and the seller becomes a hoarder of money.
I.III.74

In the early stages of the circulation of commodities, it is the surplus use-values alone that are converted into money. Gold and silver thus become of themselves social expressions for superfluity or wealth. This naïve form of hoarding becomes perpetuated in those communities in which the traditional mode of production is carried on for the supply of a fixed and limited circle of home wants. It is thus with the people of Asia, and particularly of the East Indies. Vanderlint, who fancies that the prices of commodities in a country are determined by the quantity of gold and silver to be found in it, asks himself why Indian commodities are so cheap. Answer: Because the Hindoos bury their money. From 1602 to 1734, he remarks, they buried 150 millions of pounds sterling of silver, which originally came from America of Europe.*96 In the 10 years from 1856 to 1866, England exported to India and China £120,000,000 in silver, which had been received in exchange for Australian gold. Most of the silver exported to China makes its way to India.
I.III.75

As the production of commodities further develops, every producer of commodities is compelled to make sure of the nexus rerum of the social pledge.*97 His wants are constantly making themselves felt, and necessitate the continual purchase of other people's commodities, while the production and sale of his own goods require time, and depend upon circumstances. In order then to be able to buy without selling, he must have sold previously without buying. This operation,

conducted on a general scale, appears to imply a contradiction. But the precious metals at the sources of their production are directly exchanged for other commodities. And here we have sales (by the owners of commodities) without purchases (by the owners of gold or silver.)*98 And subsequent sales, by other producers, unfollowed by purchases, merely bring about the distribution of the newly produced precious metals among all the owners of commodities. In this way, all along the line of exchange, hoards of gold and silver of varied extent are accumulated. With the possibility of holding and storing up exchange value in the shape of a particular commodity, arises also the greed for gold. Along with the extension of circulation, increases the power of money, that absolutely social form of wealth ever ready for use. "Gold is a wonderful thing! Whoever possesses it is lord of all he wants. By means of gold one can even get souls into Paradise." (Columbus in his letter from Jamaica, 1503.) Since gold does not disclose what has been transformed into it, everything, commodity or not, is convertible into gold. Everything becomes saleable and buyable. The circulation becomes the great social retort into which everything is thrown, to come out again as a gold crystal. Not even are the bones of saints, and still less are more delicate res sacrosanctæ extra commercium hominum able to withstand this alchemy.*99 Just as every qualitative difference between commodities is extinguished in money, so money, on its side, like the radical leveller that it is, does away with all distinctions.*100 But money itself is a commodity, an external object, capable of becoming the private property of any

individual. Thus social power becomes the private power of private persons. The ancients therefore denounced money as subversive of the economical and moral order of things.*101 Modern society, which soon after its birth, pulled Plutus by the hair of his head from the bowels of the earth,*102 greets gold as its Holy Grail, as the glittering incarnation of the very principle of its own life.
I.III.76

A commodity, in its capacity of a use-value, satisfies a particular want, and is a particular element of material wealth. But the value of a commodity measures the degree of its attraction for all other elements of material wealth, and therefore measures the social wealth of its owner. To a barbarian owner of commodities, and even to a West-European peasant, value is the same as value-form, and therefore, to him the increase in his hoard of gold and silver is an increase in value. It is true that the value of money varies, at one time in consequence of a variation in its own value, at another, in consequence of a change in the value of commodities. But this, on the one hand, does not prevent 200 ounces of gold from still containing more value than 100 ounces, nor, on the other hand, does it hinder the actual metallic form of this article from continuing to be the universal equivalent form of all other commodities, and the immediate social incarnation of all human labour. The desire after hoarding is in its very nature unsatiable. In its qualitative aspect, or formally considered, money has no bounds to its efficacy, i.e., it is the

universal representative of material wealth, because it is directly convertible into any other commodity. But, at the same time, every actual sum of money is limited in amount, and therefore, as a means of purchasing, has only a limited efficacy. This antagonism between the quantitive limits of money and its qualitative boundlessness, continually acts as a spur to the hoarder in his Sisyphus-like labour of accumulating. It is with him as it is with a conqueror who sees in every new country annexed, only a new boundary.
I.III.77

In order that gold may be held as money, and made to form a hoard, it must be prevented from circulating, or from transforming itself into a means of enjoyment. The hoarder, therefore, makes a sacrifice of the lusts of the flesh to his gold fetish. He acts in earnest up to the Gospel of abstention. On the other hand, he can withdraw from circulation no more than what he has thrown into it in the shape of commodities. The more he produces, the more he is able to sell. Hard work, saving and avarice, are, therefore, his three cardinal virtues, and to sell much and buy little the sum of his political economy.*103
I.III.78

By the side of the gross form of a hoard, we find also its æsthetic form in the possession of gold and silver articles. This grows with the wealth of civil society. "Soyons riches ou paraissons riches " (Diderot).

In this way there is created, on the one hand, a constantly extending market for gold and silver, unconnected with their functions as money, and, on the other hand, a latent source of supply, to which recourse is had principally in times of crisis and social disturbance.
I.III.79

Hoarding serves various purposes in the economy of the metallic circulation. It first function arises out of the conditions to which the currency of gold and silver coins is subject. We have seen how, along with the continual fluctuations in the extent and rapidity of the circulation of commodities and in their prices, the quantity of money current unceasingly ebbs and flows. This mass must, therefore, be capable of expansion and contraction. At one time money must be attached in order to act as circulating coin, at another, circulating coin must be repelled in order to act again as more or less stagnant money, In order that the mass of money, actually current, may constantly saturate the absorbing power of the circulation, it is necessary that the quantity of gold and silver in a country be greater than the quantity required to function as coin. This condition is fulfilled by money taking the form of hoards. These reserves serve as conduits for the supply or withdrawal of money to or from the circulation, which in this way never overflows its banks.*104

b. Means of Payment.

I.III.80

In the simple form of the circulation of commodities hitherto considered, we found a given value always presented to us in a double shape, as a commodity at one pole, as money at the opposite pole. The owners of commodities came therefore into contact as the respective representatives of what were already equivalents. But with the development of circulation, conditions arise under which the alienation of commodities becomes separated, by an interval of time, from the realisation of their prices. It will be sufficient to indicate the most simple of these conditions. One sort of article requires a longer, another a shorter time for its production. Again, the production of different commodities depends on different seasons of the year. One sort of commodity may be born on its own market place, another has to make a long journey to market. Commodity-owner No. 1, may therefore be ready to sell, before No. 2 is ready to buy. When the same transactions are continually repeated between the same persons, the conditions of sale are regulated in accordance with the conditions of production. On the other hand, the use of a given commodity, of a house, for instance, is sold (in common parlance; let) for a definite period. Hence, it is only at the end of the term that the buyer has actually received the use-value of the commodity. He therefore buys it before he pays for it. The vendor sells an existing commodity, the purchaser buys as the mere representative of money, or rather of future money. The vendor becomes a creditor, the purchaser becomes

a debtor. Since the metamorphosis of commodities, or the development of their value-form, appears here under a new aspect, money also acquires a fresh function; it becomes the means of payment.
I.III.81

The character of creditor, or of debtor, results here from the simple circulation. The change in the form of that circulation stamps buyer and seller with this new die. At first, therefore, these new parts are just as transient and alternating as those of seller and buyer, and are in turns played by the same actors. But the opposition is not nearly so pleasant, and is far more capable of crystallization.*105 The same characters can, however, be assumed independently of the circulation of commodities. The class-struggles of the ancient world took the form chiefly of a contest between debtors and creditors, which in Rome ended in the ruin of the plebeian debtors. They were displaced by slaves. In the middle-ages the contest ended with the ruin of the feudal debtors, who lost their political power together with the economical basis on which it was established. Nevertheless, the money relation of debtor and creditor that existed at these two periods reflected only the deeper-lying antagonism between the general economical conditions of existence of the classes in question.
I.III.82

Let us return to the circulation of commodities. The appearance of the two equivalents, commodities and money, at the two poles of the process of sale, has ceased to be simultaneous. The money functions now, first as a measure of value in the determination of the price of the commodity sold; the price fixed by the contract measures the obligation of the debtor, or the sum of money that he has to pay at a fixed date. Secondly, it serves as an ideal means of purchase. Although existing only in the promise of the buyer to pay, it causes the commodity to change hands. It is not before the day fixed for payment that the means of payment actually steps into circulation, leaves the hand of the buyer for that of the seller. The circulating medium was transformed into a hoard, because the process stopped short after the first phase, because the converted shape of the commodity, viz., the money, was withdrawn from circulation. The means of payment enters the circulation, but only after the commodity has left it. The money is no longer the means that brings about the process. It only brings it to a close, by stepping in as the absolute form of existence of exchange value, or as the universal commodity. The seller turned his commodity into money, in order thereby to satisfy some want; the hoarder did the same in order to keep his commodity in its money-shape, and the debtor in order to be able to pay; if he do not pay, his goods will be sold by the sheriff. The value-form of commodities, money, is therefore now the end and aim of a sale, and that owing to a social necessity springing out of the process of circulation itself.

I.III.83

The buyer converts money back into commodities before he has turned commodities into money: in other words, he achieves the second metamorphosis of commodities before the first. The seller's commodity circulates, and realises its price, but only in the shape of a legal claim upon money. It is converted into a use-value before it has been converted into money. The completion of its first metamorphosis follows only at a later period.*106

I.III.84

The obligations falling due within a given period, represent the sum of the prices of the commodities, the sale of which gave rise to those obligations. The quantity of gold necessary to realise this sum, depends, in the first instance, on the rapidity of currency of the means of payment. That quantity is conditioned by two circumstances: first the relations between debtors and creditors form a sort of chain, in such a way that A, when he receives money from his debtor B, straightway hands it over to C his creditor, and so on; the second circumstance is the length of the intervals between the different due-days of the obligations. The continuous chain of payments, or retarded first metamorphoses, is essentially different from that interlacing of the series of metamorphoses which we considered on a former page. By the currency of the circulating medium, the connexion between buyers and sellers, is not merely expressed. This connexion is originated by,

and exists in, the circulation alone. Contrariwise, the movement of the means of payment expresses a social relation that was in existence long before.
I.III.85

The fact that a number of sales take place simultaneously, and side be side, limits the extent to which coin can be replaced by the rapidity of currency. On the other hand, this fact is a new lever in economising the means of payment. In proportion as payments are concentrated at one spot, special institutions and methods are developed for their liquidation. Such in the middle ages were the virements at Lyons. The debts due to A from B, to B from C, to C from A, and so on, have only to be confronted with each other, in order to annul each other to a certain extent like positive and negative quantities. There thus remains only a single balance to pay. The greater the amount of the payments concentrated, the less is this balance relatively to that amount, and the less is the mass of the means of payment in circulation.
I.III.86

The function of money as the means of payment implies a contradiction without a terminus medius. In so far as the payments balance one another, money functions only ideally as money of account, as a measure of value. In so far as actual payments have to be made, money does not serve as a circulating medium, as a mere

transient agent in the interchange of products, but as the individual incarnation of social labour, as the independent form of existence of exchange value, as the universal commodity. This contradiction comes to a head in those phases of industrial and commercial crises which are known as monetary crises.*107 Such a crisis occurs only where the ever-lengthening chain of payments, and an artificial system of settling them, has been fully developed. Whenever there is a general and extensive disturbance of this mechanism, no matter what its cause, money becomes suddenly and immediately transformed, from its merely ideal shape of money of account, into hard cash. Profane commodities can no longer replace it. The use-value of commodities becomes value-less, and their value vanishes in the presence of its own independent form. On the eve of crisis, the bourgeois, with the self-sufficiency that springs from intoxicating prosperity, declares money to be a vain imagination. Commodities alone are money. But now the cry is everywhere: money alone is a commodity! As the hart pants after fresh water, so pants his soul after money, the only wealth.*108 In a crisis, the antithesis between commodities and their value-form, money, becomes heightened into an absolute contradiction. Hence, in such events, the form under which money appears is of no importance. The money famine continues, whether payments have to be made in gold or in credit money such as bank notes.*109
I.III.87

If we now consider the sum total of the money current during a given period, we shall find that, given the rapidity of currency of the circulating medium and of the means of payment, it is equal to the sum of the prices to be realised, plus the sum of the payments falling due, minus the payments that balance each other, minus finally the number of circuits in which the same piece of coin serves in turn as means of circulation and of payment. Hence, even when prices, rapidity of currency, and the extent of the economy in payments, are given, the quantity of money current and the mass of commodities circulating during a given period, such as a day, no longer correspond. Money that represents commodities long withdrawn from circulation, continues to be current. Commodities circulate, whose equivalent in money will not appear on the scene till some future day. Moreover, the debts contracted each day, and the payments falling due on the same day, are quite incommensurable quantities.*110
I.III.88

Credit-money springs directly out of the function of money as a means of payment. Certificates of the debts owing for the purchased commodities circulate for the purpose of transferring those debts to others. On the other hand, to the same extent as the system of credit is extended, so is the function of money as a means of payment. In that character it takes various forms peculiar to itself under which it makes itself at home in the sphere of great

commercial transactions. Gold and silver coin, on the other hand, are mostly relegated to the sphere of retail trade.*111
I.III.89

When the production of commodities has sufficiently extended itself, money begins to serve as the means of payment beyond the sphere of the circulation of commodities. It becomes the commodity that is the universal subject-matter of all contracts.*112 Rents, taxes, and such like payments are transformed from payments in kind into money payments. To what extent this transformation depends upon the general conditions of production, is shown, to take one example, by the fact that the Roman Empire twice failed in its attempt to levy all contributions in money. The unspeakable misery of the French agricultural population under Louis XIV., a misery so eloquently denounced by Biosguillebert, Marshal, Vauban, and others, was due not only to the weight of the taxes, but also to the conversion of taxes in kind into money taxes.*113 In Asia, on the other hand, the fact that state taxes are chiefly composed of rents payable in kind, depends on conditions of production that are reproduced with the regularity of natural phenomena. And this mode of payment tends in its turn to maintain the ancient form of production. It is one of the secrets of the conservation of the Ottoman Empire. If the foreign trade, forced upon Japan by Europeans, should lead to the substitution of money rents for rents in kind, it will be all up with the exemplary

agriculture of that country. The narrow economical conditions under which that agriculture is carried on, will be swept away.
I.III.90

In every country, certain days of the year become by habit recognised settling days for various large and recurrent payments. These dates depend, apart from other revolutions in the wheel of reproduction, on conditions closely connected with the seasons. They also regulate the dates for payments that have no direct connexion with the circulation of commodities such as taxes, rents, and so on. The quantity of money requisite to make the payments, falling due on those dates all over the country, causes periodical, though merely superficial, perturbations in the economy of the medium of payment.*114
I.III.91

From the law of the rapidity of currency of the means of payment, it follows that the quantity of the means of payment required for all periodical payments, whatever their source, is in inverse proportion to the length of their periods.*115
I.III.92

The development of money into a medium of payment makes it necessary to accumulate money against the dates fixed for the payment of the sums owing. While hoarding, as a distinct mode of acquiring riches, vanishes with the progress of civil society, the

formation of reserves of the means of payment grows with that progress.

c. Universal Money.

I.III.93

When money leaves the home sphere of circulation, it strips off the local garbs which it there assumes, of a standard of prices, of coin, of tokens, and of a symbol of value, and returns to its original form of bullion. In the trade between the markets of the world, the value of commodities is expressed so as to be universally recognised. Hence their independent value-form also, in these cases, confronts them under the shape of universal money. It is only in the markets of the world that money acquires to the full extent the character of the commodity whose bodily form is also the immediate social incarnation of human labour in the abstract. Its real mode of existence in this sphere adequately corresponds to its ideal concept.
I.III.94

Within the sphere of home circulation, there can be but one commodity which, by serving as a measure of value, becomes money. In the markets of the world a double measure of value holds sway, gold and silver.*116
I.III.95

Money of the world serves as the universal medium of payment, as the universal means of purchasing, and as the universally recognised embodiment of all wealth. Its function as a means of payment in the settling of international balances is its chief one. Hence the watchword of the mercantilists, balance of trade.*117 Gold and silver serve as international means of purchasing chiefly and necessarily in those periods when the customary equilibrium in the interchange of products between different nations is suddenly disturbed. And lastly, it serves as the universally recognised embodiment of social wealth, whenever the question is not of buying or paying, but of transferring wealth from one country to another, and whenever this transference in the form of commodities is rendered impossible, either by special conjunctures in the markets, or by the purpose itself that is intended.*118
I.III.96

Just as every country needs a reserve of money for its home circulation, so, too, it requires one for external circulation in the markets of the world. The functions of hoards, therefore, arise in part out of the function of money, as the medium of the home circulation and home payments, and in part out of its function of money of the world.*119 For this latter function, the genuine money-commodity, actual gold and silver, is necessary. On that account, Sir James

Steuart, in order to distinguish them from their purely local substitutes, calls gold and silver "money of the world."
I.III.97

The current of the stream of gold and silver is a double one. On the one hand, it spreads itself from its sources over all the markets of the world, in order to become absorbed, to various extents, into the different national spheres of circulation, to fill the conduits of currency, to replace abraded gold and silver coins, to supply the material of articles of luxury, and to petrify into hoards.*120 This first current is started by the countries that exchange their labour, realise in commodities, for the labour embodied in the precious metals by gold and silver-producing countries. On the other hand, there is a continual flowing backwards and forwards of gold and silver between the different national spheres of circulation, a current whose motion depends on the ceaseless fluctuations in the course of exchange.*121
I.III.98

Countries in which the bourgeois form of production is developed to a certain extent, limit the hoards concentrated in the strong rooms of the banks to the minimum required for the proper performance of their peculiar functions.*122 Whenever these hoards are strikingly above their average level, it is, with some exceptions, an indication of stagnation in the circulation of commodities, of an interruption in the even flow of their metamorphoses.*123

Notes for this chapter

58.

The question‘Why does not money directly represent labour-time, so that a piece of paper may represent, for instance, x hour's is at bottom the same as the question why, given the production of commodities, must products take the form of commodities? This is evident, since their taking the form of commodities implies their differentiation into commodities and money. Or, why cannot private labour‘labour for the account of private individuals‘be treated as its opposite, immediate social labour? I have elsewhere examined thoroughly the Utopian idea of "labour-money"in a society founded on the production of commodities (l. c, p. 61, seq.). On this point I will only say further, that Owen's "labour-money," for instance, is no more "money" than a ticket for the theatre. Owen presupposes directly associated labour, a form of production that is entirely inconsistent with the production of commodities. The certificate of labour is merely evidence of the part taken by the individual in the common labour, and of his right to a certain portion of the common produce destined for consumption. But it never enters into Owen's head to presuppose the production of commodities, and at the same time, by juggling with money, to try to evade the necessary conditions of that production.

59.

Savages and half-civilised races use the tong differently. Captain Parry says of the inhabitants on the west coast of Baffin's Bay: "In this case (he refers to barter) they licked it (the thing represented to them) twice to their tongues, after which they seemed to consider the bargain satisfactorily concluded." In the same way, the Eastern Esquimaux licked the articles they received in exchange. If the tongue is thus used in the North as the organ of appropriation, no wonder that, in the South, the stomach serves as the organ of accumulated property, and that a Kaffir estimates the wealth of a man by the size of his belly. That the Kaffirs know what they are about is shown by the following: at the same time that the official British Health Report of 1864 disclosed the deficiency of fat-forming food among a large part of the working class, a certain Dr. Harvey (not, however, the celebrated discoverer of the circulation of the blood), made a good thing by advertising recipes for reducing the superfluous fat of the bourgeoisie and aristocracy.

60.

See Karl Marx: "Critique, etc., chapter II. B., Theories of the Unit of Measure of Money," p. 91, ff.

61.

"Wherever gold and silver have by law been made to perform the function of money or of a measure of value side by side, it has always been tried, but in vain, to treat them as one and the same material. To assume that there is an invariable ratio between the quantities of gold and silver in which a given quantity of labour-time

is incorporated, is to assume, in fact, that gold and silver are of one and the same material, and that a given mass of the less valuable metal, silver, is a constant fraction of a given mass of gold. From the reign of Edward III. to the time of George II., the history of money in England consists of one long series of perturbations caused by the clashing of the legally fixed ratio between the values of gold and silver, with the fluctuations in their real values. At one time gold was too high, at another, silver. The metal that for the time being was estimated below its value, was withdrawn from circulation, melted and exported. The ratio between the two metals was then again altered by law, but the new nominal ratio soon came into conflict again with the real one. In our own times, the slight and transient fall in the value of gold compared with silver, which was a consequence of the Indo-Chinese demand for silver, produced on a far more extended scale in France the same phenomena, export of silver, and its expulsion from circulation by gold. During the years 1855, 1856 and 1857, the excess in France of gold-imports over gold exports amounted to £41,580,000, while the excess of silver-exports over silver-imports was £14,704,000. In fact, in those countries in which both metals are legally measures of value, and therefore both legal tender, so that everyone has the option of paying in either metal, the metal that rises in value is at a premium, and, like every other commodity, measures its price in the over-estimated metal which alone serves in reality as the standard of value. The result of all experience and history with regard to this question is simply that, where two

commodities perform by law the functions of a measure of value, in practice one alone maintains that position." (Karl Marx, l. c. pp. 90-91.)

62.

The peculiar circumstance, that while the ounce of gold serves in England as the unit of the standard of money, the pound sterling does not form an aliquot part of it, has been explained as follows: "Our coinage was originally adapted to the employment of silver only, hence, an ounce of silver can always be divided into a certain adequate number of pieces of coin; but as gold was introduced at a later period into a coinage adapted only to silver, an ounce of gold cannot be coined into an aliquot number of pieces." Maclaren, " A Sketch of the History of the Currency." London, 1858, p. 16.

63.

With English writers the confusion between measure of value and standard of price (standard of value) is indescribable. Their functions, as well as their names, are constantly interchanged.

64.

Moreover, it has not general historical validity.

65.

It is thus that the pound sterling in English denotes less than one-third of its original weight; the pound Scot, before the union, only 1-36th; the French livre, 1-74th; the Spanish maravedi, less than 1-1000th; and the Portuguese rei a still smaller fraction.

66.

"Le monete le quali oggi sono ideali sono le pi[illegible] antiche d'ogni nazione, e tutte furono un tempo reali, e perchè erano reali con esse si contava." (Galiani: Della moneta, l. c., p. 153.).

67.

David Urquhart remarks in his "Familiar Words" on the monstrosity (!) that now-a-days a pound (sterling), which is the unit of the English standard of money, is equal to about a quarter of an ounce of gold. "This is falsifying a measure, not establishing a standard." He sees in this "false denomination" of the weight of gold, as in everything else, the falsifying hand of civilisation.

68.

When Anacharsis was asked for what purposes the Greeks used money, he replied, "For reckoning." (Athen, Deipn, 1. iv. 49 v. 2. ed Schweighäuser, 1802.)

69.

"Owing to the fact that money, when serving as the standard of price, appears under the same reckoning names as do the prices of commodities, and that therefore the sum of £8 17s. 10½d. may signify on the one hand an ounce weight of gold, and on the other, the value of a ton of iron, this reckoning name of money has been called its mint-price. Hence there sprang up the extraordinary notion, that the value of gold is estimated in its own material, and that, in contra-distinction to all other commodities, its price is fixed by the State. It was erroneously thought that the giving of reckoning names

to definite weights of gold, is the same thing as fixing the value of those weights." (Karl Marx. l. c., p. 89.)

70.

See "Theories of the Unit of Measure of Money" in "Critique of Political Economy," p. 91, ff. The fantastic notions about raising or lowering the mint-price of money by transferring to greater or smaller weights of gold or silver the names already legally appropriated to fixed weights of those metals; such notions, at least in those cases in which they aim, not at clumsy financial operations against creditors, both public and private, but at economical quack remedies have been so exhaustively treated by Wm. Petty in his "Quantulumcunque concerning money: To the Lord Marquis of Halifax, 1682," that even his immediate followers, Sir Dudley North and John Locke, not to mention later ones, could only dilute him. "If the wealth of a nation," he remarks, "could be decupled by a proclamation, it were strange that such proclamations have not long since been made by our Governors." (l. c., p. 36.)

71.

"Ou bien, il faut consentir à dire qu'une valeur d'un million en argent vaut plus qu'une valeur égale en marchandises." (Le Trosne l. c. p. 919), which amounts to saying, "qu'une valeur vaut plus qu'une valeur égale"

72.

Jerome had to wrestle hard, not only in his youth with the bodily flesh, as is shown by his fight in the desert with the handsome

women of his imagination, but also in his old age with the spiritual flesh. "I thought," he says, "I was in the spirit before the Judge of the Universe." "Who art thou?" asked a voice. "I am a christian," "Thou liest," thundered back the great Judge, "thou art nought but a Ciceronian"

73.

(F. Lassalle: Die Philosophie Herakleitos des Dunkeln. Berlin, 1845, Vol. I, p. 222.) Lassalle, in his note on this passage, p. 224, n. 3, erroneously makes gold a mere symbol of value.

74.

"Toute vente est achat." (Dr.Quesnay: "Dialogues sur le Commerce et les Travaux des Artisans." Physiocrates ed. Daire I. Partie, Paris, 1846, p. 170), or as Quesnay in his "Maximes générales" puts it, "Vendre est acheter."

75.

"Le prix d'une marchandise ne pouvant être payé que par le prix d'une autre marchandise." (Mercier de la Riviére: "L'Ordre natural et essentiel des sociétés politiques." Physiocrates, ed. Daire II. Partie, p, 554.)

76.

"Pour avoir cet argent, il faut avoir vendu," 1. C., p. 543.

77.

As before remarked, the actual producer of gold or silver forms an exception. He exchanges his product directly for another commodity, without having first sold it.

78.

"Si l'argent représente, dans nos mains, les choses que nous pouvons désirer d'acheter, il y représente aussi les choses que nous avons vendues pour cet argent." (Mercier de la Rivière 1. C.)

79.

"Ii y a donc...quatre termes et trois contractants, don't l'un intervient deux fois." (Le Trosne 1. c. p. 909.)

80.

Self-evident as this may be, it is nevertheless for the most part unobserved by political economists, and especially by the "Freetrader Vulgaris."

81.

See my observations on James Mill in "Critique, &c.," p. 123-125. With regard to this subject, we may notice two methods characteristic of apologetic economy. The first is the identification of the circulation of commodities with the direct barter of products, by simple abstraction from their points of difference; the second is, the attempt to explain away the contradictions of capitalist production, by reducing the relations between the persons engaged in that mode of production, to the simple relations arising out of the circulation of commodities. The production and circulation of commodities are, however, phenomena that occur to a greater or less extent in modes of production the most diverse. If we are acquainted with nothing but the abstract categories of circulation, which are common to all these modes of production, we cannot possibly know anything of the specific

points of different of those modes, nor pronounce any judgment upon them. In no science is such a big fuss made with commonplace truisms as in political economy. For instance, J. B. Say sets himself up a judge of crises, because, forsooth, the knows that a commodity is a product.

82.

Translator's note.‘This word is here used in its original signification of the course or track pursued by money as it changes from hand to hand, a course which essentially differs from circulation

83.

Even when the commodity is sold over and over again, a phenomenon that at present has no existence for us, it falls, when definitely sold for the last time, out of the sphere of circulation into that of consumption, where it serves either as means of subsistence or means of production.

84.

"Il (l'argent) n'a d'autre mouvement que celui qui lui est imprimé par les productions." (Le Trosne l.c.p. 885)

85.

"Ce sont les productions qui le (l'argent) mettent en mouvement et le font circuler...La célérité de son mouvement (sc. de l'argent) supplée à sa quantité. Lorsqu'il en est besoin, il ne fait que glisser d'une main dans l'autre sans s'arrêter un instant." (Le Trosne 1. c. pp. 915, 916.)

86.

Money being...the common measure of buying and selling, every body who hath anything to sell, and cannot procure chapmen for it, is presently apt to think, that want of money in the kingdom, or country, is the cause why his goods do not go off, and so, want of money is the common cry; which is a great mistake...What do these people want, who cry for money?...The farmer complains...he thinks that were more money in the country, he should have a price for his goods. Then it seems money is not his want, but a price for his corn and cattel, which he would sell, but cannot...Why cannot he get a price?...(1) Either there is too much corn and cattel in the country, so that most who come to market have need of selling, as he hath, and few of buying; or (2) There wants the usual vent abroad by transportation...; or (3) The consumption fails, as when men, by reason of poverty, do not spend so much in their houses as formerly they did; wherefore it is not the increase of specific money, which would at all advance the farmer's goods, but the removal of any of these three causes, which do truly keep down the market...The merchant and shopkeeper want money in the same manner, that is, they want a vent for the goods they deal in, by reason that the markets fail "...[A nation] "never thrives better, than when riches are tost from hand to hand." (Sir Dudley North: "Discourses upon Trade," Lond. 1691, pp. 11-15 passim.) Herrenschwand's fanciful notions amount merely to this, that the antagonism, which has its origin in the nature of commodities, and is reproduced in their circulation, can be removed by increasing the circulating medium. But if, on the one

hand, it is a popular delusion to stagnation in production and circulation to insufficiency of the circulating medium, it by no means follows, on the other hand, that an actual paucity of the medium in consequence, e.g., of bungling legislative interference with regulation of currency, may not give rise to such stagnation.

87.

"There is a certain measure and proportion of money requisite to drive the trade of a nation, more or less than which would prejudice the same. Just as there is a certain proportion of farthings necessary in a small retail trade, to change silver money, and to even such reckonings as cannot be adjusted with the smallest silver pieces...Now, as the proportion of the number of farthings requisite in commerce is to be taken from the number of people, the frequency of their exchanges: as also, and principally, from the value of the smallest silver pieces of money; so in like manner, the proportion of money [gold and silver specie] requisite in our trade, is to be likewise taken from the frequency of commutations, and from the bigness of the payments." (William Petty. "A Treatise on Taxes and Contributions." Lond. 1662, p. 17.) The Thoery of Hume was defended against the attacks of J. Steuart and others, by A. Young, in his "Political Arithmetic," Lond. 1774, in which work there is a special chapter entitled "Prices depend on quantity of money," at p.112, sqq. I have stated in "Critique, &c.," p. 232: "He (Adam Smith) passes over without remark the question as to the quantity of coin in circulation, and treats money quite wrongly as a mere commodity." This

statement applies only is so far as Adam Smith, ex officio, treats of money. Now and then, however, as in his criticism of the earlier systems of political economy, he taken the right view. "The quantity of coin every country is regulated by the value of the commodities which are to be circulated by it.... The value of the goods annually bought and sold in any country requires a certain quantity of money to circulate and distribute them to their proper consumers, and can give employment to no more. The channel of circulation necessarily draws to itself a sum sufficient to fill it, and never admits any more." ("Wealth of Nations." Bk. IV., ch. I.) In like manner, ex officio, he opens his work with an apotheosis on the division of labour. Afterwards, in the last book which treats of the sources of public revenue, he occasionally repeats the denunciations of the division of labour made by his teacher, A. Ferguson.

88.

"The prices of things will certainly rise in every nation, as the gold and silver increase amongst the people; and consequently, where the gold and silver decrease in any nation, the prices of all things must fall proportionably to such decrease of money." (Jacob Vanderlint: "Money answers all Things." Lond. 1734, p. 5.) A careful comparison of this book with Hume's "Essays," proves to my mind without doubt that Hume was acquainted with and made uae of Vanderlint's work, which is certainly an important one. The opinion that prices are determined by the quantity of the circulating medium, was also held by Barbon and other much earlier writers. "No inconvenience," says

Vanderlint, "can arise by an unrestrained trade, but very great advantage; since, if the cash of the nation be decreased by it, which prohibitions are designed to prevent, those nations that get the cash will certainly find everything advance in price, as the cash increases amongst them. And...our manufactures, and everything else, will soon become so moderate as to turn the balance of trade in our favour, and thereby fetch the money back again." (I. c., pp. 43, 44.)

89.

That the price of each single kind of commodity forms part of the sum of the prices of all the commodities in circulation, is a self-evident proposition. But how use-values, which are incommensurable with regard to each other, are to be exchanged, en masse, for the total sum of gold and silver in a country, is quite incomprehensible. If we start from then notion that all commodities together form one single commodity, of which each is but an aliquot part, we get the following beautiful result: The total commodity =x cwt. of gold; commodity A =an aliquot part of the total commodity =the same aliquot part of x cwt. of gold. This is stated in all seriousness by Montesquieu: "Si l'on compare la masse de l'or et de l'argent qui est dans le monde avec la somme des marchandises qui y sont, il est certain que chaque denrée ou marchandise, en particulier, pourra étre comparée â une certaine portion de le masse entière. Supposons qu'il n'y ait qu'une seule denrée ou marchandise dans le monde, ou qu'il n'y ait qu'une seule qui s'achéte, et qu'elle se divise comme l'argent: Cette partie de cette marchandise repondra à une partie de la masse

de l'argent; la moitié du total de l'une â la moitié du total de l'autre, &c....l'établissement du prix des choses dépend toujours fondamentalement de la raison du total des choses au total des signes." (Montesquieu l. c. t III., pp. 122, 13.) As to the further development of this theory by Ricardo and his disciples, James Mill, Lord Overstone, and others, see "Critique of Political Economy," pp. 235, ff. John Stuart Mill, with his usual eclectic logic, understands how to hold at the same time the view of his father, James Mill, and the opposite view. On a comparison of the text of his compendium, "Principles of Pol. Econ.," with his preface to the first edition, in which preface he announces himself as the Adam Smith of his day‘we do not know whether to admire more the simplicity of the man, or that of the public, who took him, in good faith, for the Adam Smith he announced himself to be, although he bears about as much resemblance to Adam Smith as say General Williams, of Kars, to the Duke of Wellington. The original researches of Mr. J. S. Mill, which are neither extensive nor profound, in the domain of political economy, will be found mustered in rank and file in his little work, "Some Unsettled Questions of Political Economy," which appeared in 1844. Locke asserts point blank the connexion between the absence of value in gold and silver, and the determination of their values by quantity alone, "Mankind having consented to put an imaginary value upon gold and silver...the intrinsik value, regarded in these metals, is nothing but the quantity." ("Some considerations," &c., 1691, Works Ed. 1777, vol. II., p. 15.)

90.

It lies, of course, entirely beyond my purpose to take into consideration such details as the seigniorage on minting. I will, however, cite for the benefit of the romantic sycophant, Adam Müller, who admires the "generous liberality" with which the English Government coins gratuitously, the following opinion of Sir Dudley North: "Silver and gold, like other commodities, have their ebbings and flowings. Upon the arrival of quantities from Spain...it is carried into the Tower, and coined. Not long after there will come a demand for bullion to be exported again. If there is none, but all happens to be in coin, what then? Melt it down again; there's no loss in it, for the coining costs the owner nothing. Thus the nation has been abused, and made to pay for the twisting of straw for asses to eat. If the merchant were made to pay the price of the coinage, he would not have sent his silver to the Tower without consideration; and coined money would always keep a value above uncoined silver." (North, l. c., p.18.) North was himself one of the foremost merchants in the reign of Charles II.

91.

If silver never exceed what is wanted for the smaller payments, it cannot be collected in sufficient quantities for the larger payments...the use of gold in the main payments necessarily implies also its use in the retail trade: those who have gold coin offering them for small purchases, and receiving with the commodity purchased a balance of silver in return; by which means the surplus of silver

that would otherwise encumber the retail dealer, is drawn off and dispersed into general circulation. But if there is as much silver as will transact the small payments independent of gold, the retail trade must then receive silver for small purchases; and it must of necessity accumulate in his hands." (David Buchanan. "Inquiry into the Taxation and Commercial Policy of Great Britain." Edinburgh, 1844, pp. 248, 249.)

92.

The mandarin Wan-mao-in, the Chinese Chancellor of the Exchequer, took it into his head one day to lay before the Son of Heaven a proposal that secretly aimed at converting the assignats of the empire into convertible bank notes. The assignats Committee, in its report of April, 1854, gives him a severe snubbing. Whether he also received the traditional drubbing with bamboos is not stated. The concluding part of the report is as follows:‘"The Committee has carefully examined his proposal and finds that it is entirely in favour of the merchants, and that no advantage will result to the crown." (Arbeiten der Kaiserlich Russischen Gesandtschaft zu Peking über China. Aus dem Russischen von Dr. K. Abel und F. A. Mecklenburg. Erster Band. Berlin, 1858, pp. 47, 59.) In his evidence before the Committee of the House of Lords on the Bank Acts, a governor of the Bank of England says with regard to the abrasion of gold coins during currency: "Every year a fresh class of sovereigns becomes too light. The class which one year passes with full weight, loses enough by wear and tear to

draw the scales next year against it." (House of Lords' Committee, 1848, n. 429.)

93.

The follwing passage from Fullarton shows the want of clearness on the part of even the best writers on money, in their comprehension of its various functions: "That, as far as concerns our domestic exchanges, all the monetary functions which are usually performed by gold and silver coins, may be performed as effectually by a circulation of inconvertible notes, having no value but that factitious and conventional value they derive from the law, is a fact which admits, I conceive, of no denial. Value of this description may be made to answer all the purposes of intrinsic value, and supersede even the necessity for a standard, provided only the quantity of issues be kept under due limitation." (Fullarton:"Regulation of Currencies," London, p. 210.) Because the commodity that serves as money is capable of being replaced in circulation by mere symbols of value, therefore its functions as a measure of value and a standard of prices are declared to be superfluous.

94.

From the fact gold and silver, so far as they are coins, or exclusively serve as the medium of circulation, become mere tokens of themselves, Nicholas Barbon deduces the right of Governments "to raise money," that is, to give to the weight of silver that is called a shilling the name of a greater weight, such as a crown; and so to pay creditors shillings, instead of crowns. "Money does wear and grow

lighter by often telling over...It is the denomination and currency of the money that men regard in bargaining, and not the quantity of silver...'Tis the public authority upon the metal that makes it money." (N. Barbon, 1. c., pp. 29, 30, 25.)

95.

"Une richesse en argent n'est que...richesse en productions, converties en argent." (Mercier de la Riviére, 1. c.) "Une valeur en productions n'a fait que change de forme." (Id., p. 486.)

96.

"'Tis by this practice they keep all their goods and manufactures at such low rates." (Vanderlint, 1. c., p. 96.)

97.

Money...is a pledge." (John Bellers: "Essays about the Poor, Manufacturers, Trade, Plantations, and Immorality," Lond., 1699, p. 13.)

98.

A purchase, in a "categorical" sense, implies that gold and silver are already the converted form of commodities, or the product of a sale.

99.

Henry III., most Christian king of France, robbed cloisters of their relics, and turned them into money. It is well known what part the despoiling of the Delphic Temple, by the Phocians, played in the history of Greece. Temples with the ancients served as the dwellings of the gods of commodities. They were "sacred banks." With the Phœnicians, a trading people par excellence, money was the

transmuted shape of everything. It was, therefore, quite in order that the virgins, who, at the feast of the Goddess of Love, gave themselves up to strangers, should offer to the goddess the piece of money they received.

100.

"Gold, yellow, glittering, precious gold!
Thus much of this, will make black white; foul, fair;
Wrong right; base, noble; old, young; coward, valiant.
...What this, you gods? Why, this
Will lug your priests and servants from your sides;
Pluck stout men's pillows from below their heads;
This yellow slave
Will knit and break religions; bless the accura'd;
Make the hoar leprosy ador'd; place thieves,
And give them title, knee and approbation,
With senators on the bench; this is it,
That makes the wappen'd widow wed again:
...Come damned earth,
Thou common whore of mankind."
(Shakespeare: Timon of Athens.)

101.

(Sophocles, Antigone.)

102.

(Athen.Delpnos.)

103.

"Accrescere quanto pi&#65533; si può il numero de' venditori d'ogni merce, diminuere quanto pi&#65533; il numero dei compratori, questi sono i cardini sui quali si raggirano tutto be operazioni di economia politica." (Verri, 1. c. p. 52.)

104.

"There is required for carrying on the trade of the nation a determinate sum of specifick money, which varies, and is sometimes more, sometimes less, as the circumstances we are in require....This ebbing and flowing of money supplies and accommodates itself, without any aid of Politicians....The buckets work alternately; when money is scarce, bullion is coined; when bullion is scarce, money is melted." (Sir D. North, 1. c., Postscript, p. 3.) John Stuart Mill, who for a long time was an official of the East India Company, confirms the fact that in India silver ornaments still continue to perform directly the functions of a hoard. The silver ornaments are brought out and coined when there is a high rate of interest, and go back again when the rate of interest falls. (J. S. Mill's Evidence. "Reports on Bank Acts," 1857, 2084.) According to a Parliamentary document of 1864, on the gold and silver import and export of India, the import of gold and silver in 1863 exceeded the export by £19,367,764. During the 8 years immediately preceding 1864, the excess of imports over exports

of the precious metals amounted to £109,652,917. During this century far more than £200,000,000 has been coined in India.

105.

The following shows the debtor and creditor relations existing between English traders at the beginning of the 18th century. "Such a spirit of cruelty reigns here in England among the men of trade, that is not to be met with in any other society of men, nor in any other kingdom of the world." ("An Essay on Credit and the Bankrupt Act," Lond., 1707, p. 2.)

106.

It will be seen from the following quotation from my book which appeared in 1859, why I take no notice in the text of an opposite form: "Contrariwise, in the process M‘C, the money can be alienated as a real means of purchase, and in that way, the price of the commodity can be realised before the use-value of the money is realised and the commodity actually delivered. This occurs constantly under the every-day form of pre-payments. And it is under this form, that the English government purchases opium from the ryots of India....In these cases, however, the money always acts as a means of purchase....Of course capital also is advanced in the shape of money....This point of view, however, does not fall within the horizon of simple circulation. ("Critique," &c., pp.153.

107.

The monetary crisis referred to in the text, being a phase of every crisis, must be clearly distinguished from that particular form of crisis,

which also is called a monetary crisis, but which may be produced by itself as an independent phenomenon in such a way as to react only indirectly on industry and commerce. The pivot of these crises is to be found in moneyed capital, and their sphere of direct action is therefore the sphere of that capital, viz., banking, the stock exchange, and finance.

108.

"The sudden reversion from a system of credit to a system of hard cash heaps theoretical fright on top of the practical panic; and the dealers by whose agency circulation is affected, shudder before the impenetrable mystery in which their own economical relations are involved" (Karl Marx, l. c. p. 198). "The poor stand still, because the rich have no money to employ them, though they have the same land and hands to provide victuals and clothes, as ever they had...;which is the true Riches of a Nation, and not the money." (John Bellers: "Proposals for raising a College of Industry." Lond. 1695. p. 3.)

109.

The following shows how such times are exploited by the "amis du commerce." "On one occasion (1839) an old grasping banker (in the city) in his private room raised the lid of the desk he sat over, and displayed to a friend rolls of banknotes, saying with intense glee there were £600,000 of them, they were held to make money tight, and would all be let out after three o'clock on the same day." ("The Theory of Exchanges. The Bank Charter Act of 1844." Lond. 1864, p. 81.) The Observer, a semi-official government organ, contained the

following paragraph on 24th April, 1864: "Some very curious rumours are current of the means which have been resorted to in-order to create a scarcity of Banknotes....Questionable as it would seem, to suppose that any trick of the kind would be adopted, the report has been so universal that it really deserves mention."

110.

"The amount of purchases or contracts entered upon during the course of any given day, will not affect the quantity of money afloat on that particular day, but, in the vast majority of cases, will resolve themselves into multifarious drafts upon the quantity of money which may be afloat at subsequent dates more or less distant....The bills granted or credits opened, to-day, need have no resemblance whatever, either in quantity, amount, or duration, to those granted or entered upon to-morrow or next day; nay, many of to-day's bills, and credits, when due, fall in with a mass of liabilities whose origins traverse a range of antecedent dates altogether indefinite, bills at 12, 6, 3 months or 1 often aggregating together to swell the common liabilities of one particular day...." ("The Currency Theory reviewed: a letter to the Scottish people." By a Banker in England. Edinburgh, 1845, pp. 29, 30 passim.)

111.

As an example of how little ready money is required in true commercial operations, I give below a statement by one of the largest London houses of its yearly receipts and payments. Its transactions

during the year 1856, extending to many milions of pounds sterling, are here reduced to the scale of one million.

RECEIPTS.PAYMENTS.
Bankers' and Merchants' Bills payable after date,... £533,596 Bills payable after date,... £302,674
Cheques on Bankers, &c., payable on demand,... 357,715 Cheques on London Bankers,... 663,672
Country Notes,... 9,627 Bank of England Notes,... 22,743
Bank of England Notes,... 68,554 Gold... 9,427
Gold... 28,089 Silver and Copper,... 1,484
Silver and Copper,... 1,486
Post Office Orders,... 933
Total,... £1,000,000 Total,... £1,000,000

"Report from the Select Committee on the Bank Acts, July, 1858," p. lxxi.
112.
"The course of trade being thus turned, from exchanging of goods for goods, or delivering and taking, to selling and paying, all the bargains...are now stated upon the foot of a Prince in money." "An Essay upon Publick Credit," 3rd Ed. Lond., 1710, p. 8.)
113.
"L'argent...est devenu le bourreau de toutes choses." Finance is the "alambic, qui a fait évaporer une quantité effroyable de biens et de

denrées pour faire ce fatal précis." "L'argent déclare la guerre à tout le genre humain." (Bois guillebert: "Dissertation sur la nature des richesses, de l'argent et des tributs." Edit. Daire. Economistes financiers. Paris, 1843, t. i., pp. 413, 419, 417.)

114.

"On Whitsuntide, 1824," says Mr. Craig before the Commons' Committee of 1826, "there was such an immense demand for notes upon the banks of Edinburgh, that by 11 o'clock they had not a note left in their custody. They sent round to all the different banks to borrow, but could not get them, and many of the transactions were adjusted by slips of paper only; yet by three o'clock the whole of the notes were returned into the banks from which they had issued! It was a mere transfer from hand to hand." Although the average effective circulation of bank-notes in Scotland is less than three millions sterling, yet on certain pay days in the year, every single note in the possession of the bankers, amounting in the whole to about £7,000,000, is called into activity. On these occasions the notes have a single and specific function to perform, and so soon as they have performed it, they flow back into the various banks from which they issued. (See John Fullarton, "Regulation of Currencies." Lond: 1844, p. 85 note.) In explanation it should be stated, that in Scotland, at the date of Fullarton's work, notes and not cheques were used to withdraw deposits.

115.

To the question. "If there were occasion to raise 40 millions p.a., whether the same 6 millions (gold)...would suffice for such revolutions and circulations thereof, as trade requires," Petty replies in his usual masterly manner, "I answer yes: for the expense being 40 millions, if the revolutions were in such short circles, viz., weekly, as happens among poor artizans and labourers, who receive and pay every Saturday, the 40/52 parts of 1 million of money would answer these ends; but if the circles be quarterly, according to our custom of paying rent, and gathering taxes then 10 millions were requisite. Wherefore, supposing payments in general to be of a mixed circle between one week and 13, then add 10 millions to 40/52, the half of which will be 5½, so as if we have 5½ millions we have enough." (William Petty: "Political Anatomy of Ireland." 1672. Edit.: Lond. 1691, pp. 13, 14.)

116.

Hence the absurdity of every law prescribing that the banks of a country shall form reserves of that precious metal alone which circulates at home. The "pleasant difficulties" thus self-created by the Bank of England, are well known. On the subject of the great epochs in the history of the changes in the relative value of gold and silver, see Karl Marx l. c. p. 215 sq. Sir Ropert Peel, by his Bank Act of 1844, sought to tide over the difficulty, by allowing the Bank of England to issue notes against silver bullion, on condition that the reserve of silver should never exceed more than one-fourth of the reserve of gold. The value of silver being for that purpose estimated

at its price in the London market.‘Note to the 4th German edition.‘We find ourselves once more in a period of a marked change in the relative values of gold and silver. About 25 years ago the ratio of gold to silver was 15.5 to 1, now it is about 22 to 1, and silver is continually falling against gold. This is essentially a result of a revolution in the processes of production of these two metals. Formerly gold was obtained almost exclusively by washing alluvial strata containing gold, the products of disintegration of gold-carrying rocks. But now this method is no longer sufficient and has been crowded to the rear by the mining of quartz layers containing gold, a method formerly considered as secondary, although well known even to the ancients (Diodorus, III, 12-14). On the other hand, immense new silver deposits were discovered in the American Rocky Mountains, and these as well as the Mexican silver mines opened up by means of railroads, which permitted the influx of modern machinery and fuel and thereby reduced the cost and increased the output of silver mining. But there is a great difference in the way in which both metals occur in the ore beds. The gold is generally solid, but scattered in minute particles through the quartz layers. The whole diggings must therefore be crushed and the gold washed out or extracted by means of quicksilver. Frequently one million grams of quartz do not contain more than 1 to 3 grams of gold, and rarely more than 30 to 60 grams. Silver, on the other hand, is rarely found in the pure state, but it occurs in some ores which are easily separated from the dross and contain as much as 40 to 90% of

silver. Or smaller quantities of it are found in ores like copper, lead, etc., which are themselves worth mining. This alone is sufficient to show that the work of producing gold has rather increased, while that of producing silver has certainly decreased, and this quite naturally explains the fall in the value of silver. This fall in value would express itself in a still greater fall of price, if the price of silver were not held up even now by artificial means. The silver deposits of America, however, have been made accessible only to a small extent, and there is, consequently, every prospect of a continued fall in the value of silver. This must be further promoted by the relative decrease of the demand for silver for articles of use and luxury, its displacement by plated wares, aluminum, etc. Judge, then, of the utopianism of the bimetallist illusion that a forced international quotation could raise silver to its old value of 15.5 to 1. The chances are rather that silver will lose more and more of its character as money on the world market. F. E.

117.

The opponents, themselves, of the mercantile system, a system which considered the settlement of surplus trade balances in gold and silver as the aim of international trade, entirely misconceived the functions of money of the world. I have shown by the example of Ricardo in what way their false conception of the laws that regulate the quantity of the circulating medium, is reflected in their equally false conception of the international movement in the precious metals (l. c. pp. 150 sq.). His erroneous dogma: "An unfavourable balance of trade never

arises but from a redundant currency.... The exportation of the coin is caused by its cheapness, and is not the effect, but the cause of an unfavourable balance," already occurs in Barbon: "The Balance of Trade, if there be one, is not the cause of sending away the money out of a nation; but that proceeds from the difference of sending away the money out of a nation; but that proceeds from the difference of the value of bullion in every country." (N. Barbon; l. c. pp. 59, 60.) MacCulloch in "the Literature of Political Economy, a classified catalogue, Lond. 1845," praises Barbon for this anticipation, but prudently passes over the naïve forms, in which Barbon clothes the absurd supposition on which the "currency principle" is based. The absence of real criticism and even of honesty, in that catalogue, culminates in the sections devoted to the history of the theory of money; the reason is that MacCulloch in this part of the work is flattering Lord Overstone whom he calls "fecile princeps argentariorum."

118.

For instance, in subsidies, money loans for carrying on wars or for enabling banks to resume cash payment, &c., it is the money form, and no other, of value that may be wanted.

119.

I would desire, indeed, no more convincing evidence of the competency of the machinery of the hoards in specie-paying countries to perform every necessary office of international adjustment, without any sensible aid from the general circulation, than the facility with

which France, when but just recovering from the shock of a destructive foreign invasion, completed within the space of 27 months the payment of her forced contribution of nearly 20 millions to the allied powers, and a considerable proportion of the sum in specie, without any perceptible contraction or derangement of her domestic currency, or even any alarming fluctuation of her exchanges." (Fullarton, l. c., p. 134.)‘Note to the 4th German edition.‘A still more convincing illustration is given by the ease with which the same France, in 1871 to 1873, was able to pay off in 30 months a war indemnity ten times larger, and to a considerable extent also in metal money. F. E.

120.

"L'argent se partage entre les nations relativement au besoin qu'elles en ont.... étant toujours attiré par les productions." (Le Trosne l. c., p. 916.) "The mines which are continually giving gold and silver, do give sufficient to supply such a needful balance to every nation." (J. Vanderlint, l. c., p. 40.)

121.

"Exchanges rise and fall every week, and at some particular times in the year run high against a nation, and at other times run as high on the contrary." (N. Barbon, l. c., p. 39.)

122.

These various functions are liable to come into dangerous conflict with one another whenever gold and silver have also to serve as a fund for the conversion of bank-notes.

123.

"What money is more than of absolute necessity for a Home Trade, is dead stock...and brings no profit to that it's kept in, but as it is transported in trade, as well as imported" (John Bellers, Essays, p. 12.) "What if we have too much coin? We may melt down the heaviest and turn it into the splendour of plate, vessels or utensils of gold or silver; or send it out as a commodity, where the same is wanted or desired; or let it out at interest, where interest is high" (W. Petty: "Quantulumcunque," p. 39.) "Money is but the fat of the Body Politick, whereof too much doth as often hinder its agility, as too little makes it sick...as fat lubricates the motion of the muscles, feeds in want of victuals, fills up the uneven cavities, and beautifies the body; so doth money in the state quicken its action, feeds from abroad in time of dearth at home; evens accounts...and beautifies the whole; altho more especially the particular persons that have it in plenty." (W. Petty. "Political Anatomy of Ireland," p. 14.)

PART II.

THE TRANSFORMATION OF MONEY INTO CAPITAL.

Part II,

Volume I Chapter IV THE GENERAL FORMULA FOR CAPITAL.

II.IV.1

THE circulation of commodities is the starting point of capital. The production of commodities, their circulation, and that more developed form of their circulation called commerce, these form the historical groundwork from which it rises. The modern history of capital dates from the creation in the 16th century of a world-embracing commerce and a world-embracing market.
II.IV.2

If we abstract from the material substance of the circulation of commodities, that is, from the exchange of the various use-values, and consider only the economic forms produced by this process of circulation, we find its final result to be money: this final product of the circulation of commodities is the first form in which capital appears.
II.IV.3

As a matter of history, capital, as opposed to landed property, invariably takes the form at first of money; it appears as moneyed wealth, as the capital of the merchant and of the usurer.*1 But we have no need to refer to the origin of capital in order to discover that the first form of appearance of capital is money. We can see it daily under out very eyes. All new capital, to commence with, comes on the stage, that is, on the market, whether of commodities, labour, or money, even in our days, in the shape of money that by a definite process has to be transformed into capital.

II.IV.4

The first distinction we notice between money that is money only, and money that is capital, is nothing more than a difference in their form of circulation.

II.IV.5

The simplest form of the circulation of commodities is C‘M‘C, the transformation of commodities into money, and the changé of the money back again into commodities; or selling in order to buy. But alongside of this form we find another specifically different form: M‘C‘M, the transformation of money into commodities, and the change of commodities back again into money; or buying in order to sell. Money that circulates in the latter manner is thereby transformed into, becomes capital, and is already potentially capital.

II.IV.6

Now let us examine the circuit M‘C‘M a little closer. It consists, like the other, of two antithetical phases. In the first phase, M‘C, or the purchase, the money is changed into a commodity. In the second phase, C‘M, or the sale, the commodity is changed back into money. The combination of these two phases constitutes the single movement whereby money is exchanged for a commodity and the same commodity is again exchanged for money; whereby a commodity is bought in order to be sold, or, neglecting the distinction in form

between buying and selling, whereby a commodity is bought with money, and then money is bought with a commodity.*2 The result, in which the phases of the process vanish, is the exchange of money for money, M‘M. If I purchase 2000 lbs. of cotton for £100, and resell the 2000 lbs. of cotton for £110, I have, in fact, exchanged £100 for £110, money for money.
II.IV.7

Now it is evident that the circuit M‘C‘M would be absurd and without meaning if the intention were to exchange by this means two equal sums of money, £100 for £100. The miser's plan would be far simpler and surer; he sticks to his £100 instead of exposing it to the dangers of circulation. And yet, whether the merchant who has paid £100 for his cotton sells it for £110, or lets it go for £100, or even £50, his money has, at all events, gone through a characteristic and original movement, quite different in kind from that which it goes through in the hands of the peasant who sells corn, and with the money thus set free buys clothes. We have therefore to examine first the distinguishing characteristics of the forms of the circuits M‘C‘M and C‘ M‘C, and in doing this the real difference that underlies the mere difference of form will reveal itself.
II.IV.8

Let us see, in the first place, what the two forms have in common.
II.IV.9

Both circuits are resolvable into the same two antithetical phases, C‘M, a sale, and M‘C, a purchase. In each of these phases the same material elements‘a commodity, and money, and the same economical dramatis personæ, a buyer and a seller‘confront one another. Each circuit is the unity of the same two antithetical phases, and in each case this unity is brought about by the intervention of three contracting parties, of whom one only sells, another only buys, while the third both buys and sells.
II.IV.10

What, however, first and foremost distinguishes the circuit C‘M‘C from the circuit M‘C‘M, is the inverted order of succession of the two phases. The simple circulation of commodities begins with a sale and ends with a purchase, while the circulation of money as capital begins with a purchase and ends with a sale. In the one case both the starting point and the goal are commodities, in the other they are money. In the first form the movement is brought about by the intervention of money, in the second by that of a commodity.
II.IV.11

In the circulation C‘M‘C, the money is in the end converted into a commodity, that serves as a use-value; it is spent once for all. In the inverted form, M‘C‘M, on the contrary, the buyer lays out money in order that, as a seller, he may recover money. By the purchase of his

commodity he throws money into circulation, in order to withdraw it again by the sale of the same commodity. He lets the money go, but only with the sly intention of getting it back again. The money, therefore, is not spent, it is merely advanced.*3
II.IV.12

In the circuit C‘M‘C, the same piece of money changes its place twice. The seller gets it from the buyer and pays it away to another seller. The complete circulation, which begins with the receipt, concludes with the payment, of money for commodities. It is the very contrary in the circuit M‘C‘M. Here it is not the piece of money that changes its place twice, but the commodity. The buyer takes it from the hands of the seller and passes it into the hands of another buyer. Just as in the simple circulation of commodities the double change of place of the same piece of money effects its passage from one hand into another, so here the double change of place of the same commodity brings about the reflux of the money to its point of departure.
II.IV.13

Such reflux is not dependent on the commodity being sold for more than was paid for it. This circumstance influences only the amount of the money that comes back. The reflux itself takes place, so soon as the purchased commodity is resold, in other words, so soon as the circuit M‘C‘M is completed. We have here, therefore, a palpable

difference between the circulation of money as capital, and its circulation as mere money.
II.IV.14

The circuit C‘M‘C comes completely to an end, so soon as the money brought in by the sale of one commodity is abstracted again by the purchase of another.
II.IV.15

If, nevertheless, there follows a reflux of money to its starting point, this can only happen through a renewal or repetition of the operation. If I sell a quarter of corn for £3, and with this £3 buy clothes, the money, so far as I am concerned, is spent and done with. It belongs to the clothes merchant. If I now sell a second quarter of corn, money indeed flows back to me, not however as a sequel to the first transaction, but in consequence of its repetition. The money again leaves me, so soon as I complete this second transaction by a fresh purchase. Therefore, in the circuit C‘M‘C, the expenditure of money has nothing to do with its reflux. On the other hand, in M‘C‘M, the reflux of the money is conditioned by the very mode of its expenditure. Without this reflux, the operation fails, or the process is interrupted and incomplete, owing to the absence of its complementary and final phase, the sale.
II.IV.16

The circuit C‘M‘C starts with one commodity, and finishes with another, which falls out of circulation and into consumption. Consumption, the satisfaction of wants, in one word, use-value, is its end and aim. The circuit M‘C‘M, on the contrary, commences with money and ends with money. Its leading motive, and the goal that attracts it, is therefore mere exchange value.
II.IV.17

In the simple circulation of commodities, the two extremes of the circuit have the same economic form. They are both commodities, and commodities of equal value. But they are also use-values differing in their qualities, as, for example, corn and clothes. The exchange of products, of the different materials in which the labour of society is embodied, forms here the basis of the movement. It is otherwise in the circulation M‘C‘M, which at first sight appears purposeless, because tautological. Both extremes have the same economic form. They are both money, and therefore are not qualitatively different use-values; for money is but the converted form of commodities, in which their particular use-values vanish. To exchange £100 for cotton, and then this same cotton again for £100, is merely a roundabout way of exchanging money for money, the same for the same, and appears to be an operation just as purposeless as it is absurd.*4 One sum of money is distinguishable from another only by its amount. The character and tendency of the process M‘C‘M, is therefore not due to any qualitative difference between its extremes, both being money, but

solely to their quantitative difference. More money is withdrawn from circulation at the finish than was thrown into it at the start. The cotton that was bought for £100 is perhaps resold for £100+£10 or £110. The exact form of this process is therefore M‘C‘M', where M'=M+ΔM=the original sum advanced, plus an increment. This increment or excess over the original value I call "surplus-value." The value originally advanced, therefore, not only remains intact while in circulation, but adds to itself a surplus-value or expands itself. It is this movement that converts it into capital.
II.IV.18

Of course it is also possible, that in C‘M‘C, the two extremes C‘C, say corn and clothes, may represent different quantities of value. The farmer may sell his corn above its value, or may buy the clothes at less than their value. He may, on the other hand, "be done" by the clothes merchant. Yet, in the form of circulation now under consideration, such differences in value are purely accidental. The fact that the corn and the clothes are equivalents, does not deprive the process of all meanings, as it does in M‘C‘M. The equivalence of their values is rather a necessary condition to its normal course.
II.IV.19

The repetition or renewal of the act of selling in order to buy, is kept within bounds by the very object it aims at, namely, consumption or the satisfaction of definite wants, an aim that lies altogether outside

the sphere of circulation. But when we buy in order to sell, we, on the contrary, begin and end with the same thing, money, exchange-value; and thereby the movement becomes interminable. No doubt, M becomes M+ΔM, £100 become £110. But when viewed in their qualitative aspect alone, £110 are the same as £100, namely money; and considered quantitatively, £110 is, like £100, a sum of definite and limited value. If now, the £110 be spent as money, they cease to play their part. They are no longer capital. Withdrawn from circulation, they become petrified into a hoard, and though they remained in that state till doomsday, not a single farthing would accrue to them. If, then, the expansion of value is once aimed at, there is just the same inducement to augment the value of the £110 as that of the £100; for both are but limited expressions for exchange-value, and therefore both have the same vocation to approach, by quantitative increase, as near as possible to absolute wealth. Momentarily, indeed, the value originally advanced, the £100 is distinguishable from the surplus value of £10 that is annexed to it during circulation; but the distinction vanishes immediately. At the end of the process we do not receive with one hand the original £100, and with the other, the surplus-value of £10. We simply get a value of £110, which is in exactly the same condition and fitness for commencing the expanding process, as the original £100 was. Money ends the movement only to begin it again.*5 Therefore, the final result of every separate circuit, in which a purchase and consequent sale are completed, forms of itself the starting point of a new circuit. The simple circulation of commodities‘

selling in order to buy‘is a means for carrying out a purpose unconnected with circulation, namely, the appropriation of use-values, the satisfaction of wants. The circulation of money as capital is, on the contrary, an end in itself, for the expansion of value takes place only within this constantly renewed movement. The circulation of capital has therefore no limits.*6 Thus the conscious representative of this movement, the possessor of money becomes a capitalist. His person, or rather his pocket, is the point from which the money starts and to which it returns. The expansion of value, which is the objective basis or main-spring of the circulation M‘C‘M, becomes his subjective aim, and it is only in so far as the appropriation of ever more and more wealth is the abstract becomes the sole motive of his operations, that he functions as a capitalist, that is, as capital personified and endowed with consciousness and a will. Use-values must therefore never be looked upon as the real aim of the capitalist;*7 neither must the profit on any single transaction. The restless never-ending process of profit-making alone is what he aims at.*8 This boundless greed after riches, this passionate chase after exchange-value,*9 is common to the capitalist and the miser; but while the miser is merely a capitalist gone mad, the capitalist is a rational miser. The never-ending augmentation of exchange-value, which the miser strives after, by seeking to save*10 his money from circulation, is attained by the more acute capitalist, by constantly throwing it afresh into circulation.*11

II.IV.20

The independent form, i.e., the money-form, which the value of commodities assumes in the case of simple circulation, serves only one purpose, namely, their exchange, and vanishes in the final result of the movement. On the other hand, in the circulation M‘C‘M, both the money and the commodity represent only different modes of existence of value itself, the money its general mode, and the commodity its particular, or, so to say, disguised mode.*12 It is constantly changing from one form to the other without thereby becoming lost, and thus assumes an automatically active character. If now we take in turn each of the two different forms which self-expanding value successively assumes in the course of its life, we then arrive at these two propositions: Capital is money: Capital is commodities.*13 In truth, however, value is here the active factor in a process, in which, while, constantly assuming the form in turn of money and commodities, it at the same time changes in magnitude, differentiates itself by throwing off surplus-value from itself; the original value, in other words, expands spontaneously. For the movement, in the course of which it adds surplus value, is its own movement, its expansion, therefore, is automatic expansion. Because it is value, it has acquired the occult quality of being able to add value to itself. It brings forth living offspring, or, at the least, lays golden eggs.
II.IV.21

Value, therefore, being the active factor in such a process, and assuming at one time the form of money, at another that of commodities, but through all these changes preserving itself and expanding, it requires some independent form, by means of which its identity may at any time be established. And this form it possesses only in the shape of money. It is under the form of money that value begins and ends, and begins again, every act of its own spontaneous generation. It began by being £100, it is now £110, and so on. But the money itself is only one of the two forms of value. Unless it takes the form of some commodity, it does not become capital. There is here no antagonism, as in the case of hoardings, between the money and commodities. The capitalist knows that all commodities, however scurvy they may look, or however badly they may smell, are in faith and in truth money, inwardly circumcised Jews, and what is more, a wonderful means whereby out of money to make more money.
II.IV.22

In simple circulation, C‘M‘C, the value of commodities attained at the most a form independent of their use-values, i.e., the form of money; but that same value now in the circulation M‘C‘M, or the circulation of capital, suddenly presents itself as an independent substance, endowed with a motion of its own, passing through a life-process of its own, in which money and commodities are mere forms which it assumes and casts off in turn. Nay, more: instead of simply representing the

relations of commodities, it enters now, so to say, into private relations with itself. It differentiates itself as original value from itself as surplus-value; as the father differentiates himself from himself quâ the son, yet both are one and of one age: for only by the surplus value of £10 does the £100 originally advanced become capital, and so soon as this takes place, so soon as the son, and by the son, the father, is begotten, so soon does their difference vanish, and they again become one, £110.
II.IV.23

Value therefore now becomes value in process, money in process, and, as such, capital. It comes out of circulation, enters into it again, preserves and multiplies itself within its circuit, comes back out of it with expanded bulk, and begins the same round ever afresh.*14 M‘M', money which begets money, such is the description of Capital from the mouths of its first interpreters, the Mercantilists.
II.IV.24

Buying in order to sell, or, more accurately, buying in order to sell dearer, M‘C‘M', appears certainly to be a form peculiar to one kind of capital alone, namely, merchants' capital. But industrial capital too is money, that is changed into commodities, and by the sale of these commodities, is reconverted into more money. The events that take place outside the sphere of circulation, in the interval between the buying and selling, do not affect the form of this movement. Lastly, in

the case of interest-bearing capital, the circulation M‘C‘M' appears abridged. We have its result without the intermediate stage, in the form M‘M', "en style lapidaire" so to say, money that is worth more money, value that is greater than itself.
II.IV.25

M‘C‘M' is therefore in reality the general formula of capital as it appears prima facie within the sphere of circulation.

Notes for this chapter

1.
The contrast between the power, based on the personal relations of dominion and servitude, that is conferred by landed property, and the impersonal power that is given by money, is well expressed by the two French proverbs, "Nulle terre sans seigneur," and "L'argent n'a pas de maitre."
2.
"Avec de l'argent on achète des marchandises, et avec des marchandises on achète de l'argent." (Mercier de la Raviere: "L'ordre naturel et essentiel des sociétés politiques," p. 543.)
3.
"When a thing is bought in order to be sold again, the sum employed is called money advanced; when it is bought not to be sold, it may

be said to be expended."‘(James Steuart: "Works," &c. Edited by Gen. Sir James Steuart, his son. Lond., 1805. V. I., p. 274.)

4.

"On n'échange pas de l'argent contre de l'argent," says Mercier de la Rivière to the Mercantilists (1. c., p. 486). In a work, which, ex professo, treats of "trade" and "speculation," occurs the following: "All trade consists in the exchange of things of different kinds; and the advantage" (to the merchant?) "arises out of this difference. To exchange a pound of bread against a pound of bread...would be attended with no advantage;...Hence trade is advantageously contrasted with gambling, which consists in a mere exchange of money for money." (Th, Corbet, "An Inquiry into the Causes and Modes of the Wealth of Individuals; or the principles of Trade and Speculation explained." London, 1841, p. 5.) Although Corbet does not see that M‘M, the exchange of money for money, is the characteristic form of circulation, not only of merchants' capital but of all capital, yet at least he acknowledges that this form is common to gambling and to one species of trade, viz., speculation: but then comes MacCulloch and makes out, that to buy in order to sell, is to speculate, and thus the difference between Speculation and Trade vanishes. "Every transaction in which an individual buys produce in order to sell it again, is, in fact, a speculation." (MacCulloch: "A Dictionary Practical, &c., of Commerce." Lond., 1847, p. 1058.) With much more naiveté, Pinto, the Pindar of the Amsterdam Stock Exchange, remarks, "Le commerce est un jeu: (taken from Locke) et

ce n'est pas avec des gueux qu'on peut gagner. Si l'on gagnait long-temps en tout avec tous, il faudrait rendre de bon accord les plus grandes parties du profit pour recommencer le jeu." (Pinto: "Traité de la Circulation et du Crédit." Amsterdam, 1771, p. 231.)

5.

"Capital is divisible...into the original capital and the profit, the increment to the capital...although in practice this profit is immediately turned into capital, and set in motion with the original." (F. Engels, "Umrisse zu einer Kritik der Nationalokonomie, in: Deutsch-Französische Jahrbücher, herausgegeben von Arnold Ruge und Karl Marx." Paris, 1844, p. 99.)

6.

Aristotle opposes Œconomic to Chrematistic. He starts from the former. So far as it is the art of gaining a livelihood, it is limited to procuring those articles that are necessary to existence, and useful either to a household or the state. "True wealth () consists of such values in use; for the quantity of possessions of this kind, capable of making life pleasant, is not unlimited. There is, however, a second mode of acquiring things, to which we may by preference and with correctness give the name of Chrematistic, and in this case, there appear to be no limits to riches and possessions. Trade (is literally retail trade, and Aristotle takes this kind because in it values in use predominate) does not in its nature belong to Chrematistic, for here the exchange has reference only to what is necessary to themselves (the buyer or seller)." Therefore, as he goes on to show, the original

form of trade was barter, but with the extension of the latter, there arose the necessity for money. On the discovery of money, barter of necessity developed into into trading in commodities, and this again, in opposition to its original tendency, grew into Chrematistic, into the art of making money. Now Chrematistic is distinguishable from Œconomic in this way, that "in the case of Chrematistic, circulation is the source of riches ().And it appears to revolve about money, for money is the beginning and end of this kind of exchange (). Therefore also riches, such as Chrematistic strives for, are unlimited. Just as every art that is not a means to an end, but an end in itself, has no limit to its aims, because it seeks constantly to approach nearer and nearer to that end, while those arts that pursue means to an end, are not boundless, since the goal itself imposes a limit upon them, so with Chrematistic, there are no bounds to its aims, these aims being absolute wealth. Œconomic not Chrematistic has a limit...the object of the former is something different from money, of the latter the augmentation of money...By confounding these two forms, which overlap each other, some people have been led to look upon the preservation and increase of money ad infinitum as the end and aim of Œconomic." (Aristotles De Rep. edit. Bekker. lib. I. c. 8, 9. passim.)

7.

"Commodities (here used in the sense of use-values) are not the terminating object of the trading capitalist, money is his terminating

object." (Th. Chalmers, On Pol. Econ. &c., 2nd Ed., Glasgow, 1882, p. 165, 166.)

8.

"Il mercante non conta quasi per niente il lucro fatto, ma mira sempre al futuro." (A. Genovesi, Lezioni di Economia Civile 1765), Custodi's edit of Italian Economists. Parte Moderna t. xiii. p. 139.)

9.

"The inextinguishable passion for gain, the auri sacra fames, will always lead capitalists." (MacCulloch: "The principles of Polit. Econ." London, 1830, p. 179.) This view, of course, does not prevent the same MacCulloch and others of his kidney, when in theoretical difficulties, such, for example, as the question of overproduction, from transforming the same capitalist into a moral citizen, whose sole concern is for use-values, and who even developes an insatiable hunger for boots, hats, eggs, calico, and other extremely familiar sorts of use-values.

10.

is a characteristic Greek expression for hoarding. So in English to save has the same two meanings: sauver and épargner.

11.

"Questo infinito che le cose non hanno in progresso, hanno in giro." (Galiani.)

12.

"Ce n'est pas la matière qui fait le capital, mais la valeur de ces matières." (J. B. Say: "Traité de l'Econ. Polit." Sème. éd. Paris, 1817, t. 1., p. 428.)

13.

"Currency (!) employed in producing articles...is capital" (MacLeod: "The Theory and Practice of Banking." London, 1855, v. 1., ch. i., p. 55.) "Capital is commodities." (James Mill: "Elements of Pol. Econ." Lond., 1821, p. 74.)

14.

Capital: "portion fructifiante de la richesse accumulée...valeur permanente, multipliante." (Sismondi: "Nouveaux principes de l'écon. polit.," t. i., p. 88. 89.)

Volume II. The Process of Circulation of Capital.
Book II. The Circulation of Capital.
PART I
The Metamorphoses of Capital and Their Cycles.
Part I,

Volume II Chapter I THE CIRCULATION OF MONEY-CAPITAL.

I.I.1

The circulation process*4 of capital takes place in three stages, which, according to the presentation of the matter in Volume I, form the following series:

First stage: The capitalist appears as a buyer on the commodity and labor market; his money is transformed into commodities, or it goes through the circulation process M-C.

Second stage: Productive consumption of the purchased commodities by the capitalist. He acts in the capacity of a capitalist producer of commodities; his capital passes through the process of production. The result is a commodity of more value than that of the elements composing it.

Third stage: The capitalist returns to the market as a seller; his commodities are exchanged for money, or they pass through the circulation process C-M.

I.I.2

Hence the formula for the circulation process of money capital is: M-C...P...C'-M', the dots indicating the points where the process of circulation was interrupted, and C' and M' designating C and M increased by surplus value.

I.I.3

The first and third stages were discussed in Volume I only in so far as it was required for an understanding of the second stage, the process of production of capital. For this reason, the various forms which capital assumes in its different stages, and which it either retains or discards in the repetition of the circulation process, were not considered. These forms are now the first objects of our study.

I.I.4

In order to conceive of these forms in their purest state, we must first of all abstract from all factors which have nothing to do directly with the discarding or adopting of any of these forms. It is therefore taken for granted at this point that the commodities are sold at their value and that this takes place under the same conditions throughout. Abstraction is likewise made of any changes of value which might occur during the process of circulation.

I. First Stage. M-C.*5

I.I.5

M-C represents the exchange of a sum of money for a sum of commodities; the purchaser exchanges his money for commodities, the sellers exchange their commodities for money. It is not so much the form of this act of exchange which renders it simultaneously a part of the general circulation of commodities and a definite organic section in the independent circulation of some individual capital, as its substance, that is to say the specific use-values of the commodities which are exchanged for money. These commodities represent on the one hand means of production, on the other labor-power, and these objective and personal factors in the production of commodities must naturally correspond in their peculiarities to the special kind of articles to be manufactured. If we call labor-power L, and the means of production Pm, the sum of commodities to be purchased is C=L+Pm, or more briefly C. M-C, considered as to its substance, is therefore represented by M-C, that is to say M-C is composed of M-L and M-Pm. The sum of money M is separated into two parts, one of which buys labor-power, the other means of production. These two series of purchases belong to entirely different markets, the one to the commodity-market proper, the other to the labor-market.

I.I.6

Aside from this qualitative division of the sum of commodities into which M is transformed, the formula M-C also represents a very characteristic quantitative relation.
I.I.7

We know that the value, or price, of labor-power is paid to its owner, who offers it for sale as a commodity, in the form of wages, that is to say it is the price of a sum of labor containing surplus-value. For instance, if the daily value of labor-power is equal to the product of five hours' labor valued at three shillings, this sum figures in the contract between the buyer and seller of labor power as the price, or wages, for say, ten hours of labor time. If such a contract is made, for instance, with 50 laborers, they are supposed to work 500 hours per day for their purchaser, and one-half of this time, or 250 hours equal to 25 days of labor of 10 hours each, represent nothing but surplus-value. The quantity and the volume of the commodities to be purchased must be sufficient for the utilization of this labor-power.
I.I.8

M-C, then, does not merely express the qualitative relation represented by the exchange of a certain sum of money, say 422 pounds sterling, for a corresponding sum of means of production and labor-power, but also a quantitative relation between certain parts of that same money spent for the labor-power L and the means of production Pm. This

relation is determined at the outset by the quantity of surplus-labor to be expended by a certain number of laborers.
I.I.9

If, for instance, a certain manufacturer pays a weekly wage of 50 pounds sterling to 50 laborers, he must spend 372 pounds sterling for means of production, if this is the value of the means of production which a weekly labor of 3,000 hours, 1,500 of which are surplus-labor, transforms into factory products.
I.I.10

It is immaterial for the point under discussion, how much additional value in the form of means of production is required in the various lines of industry by the utilization of surplus-labor. We merely emphasize the fact that the amount of money M spent for means of production in the exchange M-Pm must buy a proportional quantity of them. The quantity of means of production must suffice for the absorption of the amount of labor which is to transform them into products. If the means of production were insufficient, the surplus-labor available for the purchaser would not be utilized, and he could not dispose of it. On the other hand, if there were more means of production than available labor, they would not be saturated with labor and would not be transformed into products.
I.I.11

As soon as the process M-C has been completed, the purchaser has more than simply the means of production and labor-power required for the manufacture of some useful article. He has also at his disposal a greater supply of labor-power, or a greater quantity of labor, than is necessary for the reproduction of the value of this labor-power, and he has at the same time the means of production required for the materialization of this quantity of labor. In other words, he has at his disposal the elements required for the production of articles of a greater value than these elements, he has a mass of commodities containing surplus-value. The value advanced by him in the form of money has then assumed a natural form in which it can be incarnated as a value generating more value. In brief, value exists then in the form of productive capital which has the faculty of creating value and surplus-value. Let us call capital in this form P.
I.I.12

Now the value of P is equal to that of L+Pm, it is equal to M exchanged for L and Pm. M is the same capital-value as P, only it has a different form of existence, it is capital value in the form of money‘money-capital.
I.I.13

M-C, or the more general formula M-C, a sum of purchases of commodities, a process within the general circulation of commodities, is therefore at the same time, seeing that it is a stage in the

independent circulation of capital, a process of transforming capital-value from its money form into its productive form. It is the transformation of money-capital into productive capital. In the diagram of the circulation which we are here discussing, money appears as the first bearer of capital-value, and money-capital therefore represents the form in which capital is advanced.
I.I.14

Money in the form of money-capital finds itself employed in the functions of a medium of exchange, in the present case it performs the service of a general purchasing medium and general paying medium. The last-named service is required inasmuch as labor-power, though first bought is not paid until it has been utilized. If the means of production are not found ready on the market, but have to be ordered, money in the process M-Pm likewise serves as a paying medium. These functions are not due to the fact that money-capital is capital, but that it is money.
I.I.15

On the other hand, money-capital, or capital-value in the form of money, cannot perform any other service but that of money. This service appears as a function of capital simply because it plays a certain role in the movements of capital. The stage in which this function is performed is interrelated with other stages of the circulation of money-capital. Take, for instance, the case with which

we are here dealing. Money is here exchanged for commodities which represent the natural form of productive capital, and this form contains in the germ the phenomena of the process of capitalist production.
I.I.16

A part of the money performing the function of money-capital in the process M-C assumes, in the course of this circulation, a function in which it loses its capital character but preserves its money character. The circulation of money-capital M is divided into the stages M-Pm and M-L, into the purchase of means of production and of labor-power.
I.I.17

Let us consider the last-named stage by itself. M-L is the purchase of labor-power by the capitalist. It is also the sale of labor-power, or we may say of labor, since we have assumed the existence of wages, by the laborer who owns it. What is M-C, or in this case M-L, from the standpoint of the buyer, is here, as in every other transaction of this kind, C-M from the standpoint of the seller, L-M from the standpoint of the laborer. It is the sale of labor-power by the laborer. This is the first stage of circulation, or the first metamorphosis, of commodities (Vol. I, Chap. III, Sect. 2a). It is for the seller of labor-power a transformation of his commodity into the money-form. The laborer spends the money so obtained gradually for a number of commodities

required for the satisfaction of his needs, for articles of consumption. The complete circulation of his commodity therefore appears as L-M-C, that is to say first as L-M, or C-M, second as M-C, which is the general form of the simple circulation of commodities, C-M-C. Money is in this case merely a passing circulation-medium, a mere mediator in the exchange of one commodity for another.
I.I.18

M-L is the typical stage of the transformation of money-capital into productive capital. It is the essential condition for the transformation of value advanced in the form of money into capital, that is to say into a value producing surplus-value. M-Pm is necessary only for the purpose of realizing the quantity of labor bought in the process M-L. This process was discussed from this point of view in Vol. I, Part II, under the head of "Transformation of Money into Capital." But at this point, we shall have to consider it also from another side, relating especially to money-capital as a form of capital.
I.I.19

M-L is regarded as a general characteristic of the capitalist mode of production. But in this case we are doing so, not so much because the purchase of labor-power represents a contract which stipulates the delivery of a certain quantity of labor-power for the reproduction of the price of labor-power, or of wages, not so much for the reason that it means the delivery of surplus-labor which is the fundamental

condition for the capitalization of the value advanced, or for the production of surplus-value; but we do so rather on account of its money form, because wages in the form of money buy labor-power, and this is the characteristic mark of the money system.
I.I.20

Nor is it the irrational feature of the money form which we shall note as the characteristic part. We shall overlook the irrationalities. The irrationality consists in the fact that labor itself as a value-creating element cannot have any value which could be expressed in its price, and that, therefore, a certain quantity of labor cannot have any equivalent in a certain quantity of money. But we know that wages are but a disguised form in which, for instance, the price of one day's labor-power is seen to be the price of the quantity of labor materialized by this labor-power in one day. The value produced by this labor-power in six hours of labor is then expressed as the value of twelve hours of its labor.
I.I.21

M-L is regarded as the characteristic signature of the so-called money system, because labor there appears as the commodity of its owner, and money as the buyer. In other words, it is the money relation in the sale and purchase of human activity which is considered. It is a fact, however, that money appears at an early stage as a buyer of so-called services, without the transformation of M into money-capital,

and without any change in the general character of the economic system.
I.I.22

It makes no difference to money into what sort of commodities it is transformed. It is the general equivalent of all commodities, which show by their prices that they represent in an abstract way a certain sum of money and anticipate their exchange for money. They do not assume the form in which they may be translated into use-values for their owners, until they change places with money. Once that labor power has come into the market as the commodity of its owner, to be sold for wages in return for labor, its sale and purchase is no more startling than the sale and purchase of any other commodity. The peculiar characteristic is not that the commodity labor-power is salable, but that labor-power appears in the shape of a commodity.
I.I.23

By means of M-C, that is to say by the transformation of money-capital into productive capital, the capitalist accomplishes the combination of the objective and personal factors of production so far as they consist of commodities. If money is transformed into productive capital for the first time, or if it performs for the first time the function of money-capital for its owner, he must begin by buying means of production, such as buildings, machinery, etc., before he

buys any labor-power. For as soon as labor-power passes into his control, he must have means of production for it, in order to utilize it.
I.I.24

This is the capitalist's point of view.
I.I.25

The laborer, on the other hand, looks at this question in the following light: The productive application of his labor-power is not possible, until he has sold it and brought it into contact with means of production. Before its sale, it exists in a state of separation from the means of production which it requires for its materialization. So long as it remains in this state, it cannot be used either for the production of use-values for its owner, or for the production of commodities, by the sale of which he might live. But from the moment that it is brought into touch with means of production, it forms part of the productive capital of its purchaser, the same as the means of production.
I.I.26

It is true, that in the act M-L the owner of money and the owner of labor-power enter into the relation of buyer and seller, of money-owner and commodity-owner. To this extent they enter into a money relation. But at the same time the buyer also appears in the role of an owner of means of production, which are the material conditions

for the productive expenditure of labor-power on the part of its owner. The means of production, then, meet the owner of labor-power in the form of the property of another. On the other hand, the seller of labor meets its buyer in the form of the labor-power of another and it must pass into the buyer's possession, it must become a part of his capital, in order that it may become productive capital. The class relation between the capitalist and the wage laborer is therefore established from the moment that they meet in the act M-L, which signifies L-M from the standpoint of the laborer. It is indeed a sale and a purchase, a money relation, but it is a sale and a purchase in which the buyer is a capitalist and the seller a wage-laborer. And this relation arises out of the fact that the conditions required for the materialization of labor-power, viz.: means of subsistence and means of production, are separated from the owner of labor-power and are the property of another.
I.I.27

We are not here concerned in the origin of this separation. It is a fact, as soon as the act M-L can be performed. The thing which interests us here is that M-L does not become a function of money-capital for the sole reason that it is a means of paying for a useful human activity or service. The function of money as a paying medium is not the main object of our attention. Money can be expended in this form only because labor-power finds itself separated from its means of production, including the means of subsistence required for

its reproduction; because this separation can be overcome only by the sale of the labor-power to the owner of the means of production; because the materialization of labor-power, which is by no means limited to the quantity of labor required for the reproduction of its own price, is likewise in the control of its buyer. The capital relation during the process of production arises only because it is inherent in the process of circulation based on the different economic conditions, the class distinctions between the buyer and the seller of labor-power. It is not money which by its nature creates this relation; it is rather the existence of this relation which permits of the transformation of a mere money-function into a capital-function.
I.I.28

In the conception of money-capital, so far as it relates to the special function which we are discussing, two errors run parallel to one another or cross each other. In the first place, the functions performed by capital-value in its capacity of money-capital, which are due to its money form, are erroneously derived from its character as capital. But they are due only to the money form of capital-value. In the second and reverse case, the specific nature of the money-function, which renders it simultaneously a capital-function, is attributed to its money nature. Money is here confounded with capital, while the specific nature of the money-function is conditioned on social relations such as are indicated by the act M-L, and these

conditions do not exist in the mere circulation of commodities and money.
I.I.29

The sale and purchase of slaves is formally also a sale and purchase of commodities. But money cannot perform this function without the existence of slavery. If slavery exists, then money can be invested in the purchase of slaves. On the other hand, the mere possession of money cannot make slavery possible.
I.I.30

In order that the sale of his labor-power by the laborer, in the form of the sale of labor for wages, may take place as a result of social conditions which make it the basis of the production of commodities, in order that it may not be an isolated instance, so that money-capital may perform, on a social scale, the function in the process M-C, definite historical processes are required, by which the original connection of the means of production with labor-power is dissolved. These processes must have resulted in opposing the mass of the people, the laborers, as propertiless to the idle owners of the means of production. It makes no difference in this case, whether the connection between the labor-power and the means of production before its dissolution was such that the laborer belonged to the means of production and was a part of them, or whether he was their owner.

I.I.31

The fact which lies back of the process M-C is distribution; not distribution in the ordinary meaning of a distribution of articles of consumption, but the distribution of the elements of production themselves. These consist of the objective things which are concentrated on one side, and labor-power which is isolated on the other.

I.I.32

The means of production, the objective things of productive capital, must therefore stand opposed to the laborer as capital, before the process M-L can become a universal, social one.

I.I.33

We have seen on previous occasions that capitalist production, once it is established, does not only reproduce in its further development this separation, but extends its scope more and more, until it becomes the prevailing social condition. However, there is still another side to this question. In order that capital may be able to arise and take control of production, a definite stage in the development of commerce must precede. This includes the circulation of commodities, and therefore also the production of commodities; for no articles can enter circulation in the form of commodities, unless they are manufactured for sale, and intended for commerce. But the production of

commodities does not become the normal mode of production, until it finds as its basis the capitalist system of production.
I.I.34

The Russian landowners, who are compelled to carry on agriculture by the help of wage-laborers instead of serfs, since the so-called emancipation of the serfs, complain about two things. They wail in the first place about the lack of money-capital. They say, for instance, that large sums must be paid to wage-laborers, before the crops can be sold, and there is a dearth of ready cash. Capital in the form of money must always be available for the payment of wages, before production on a capitalist scale can be carried on. But the landowners may take hope. In due time the industrial capitalist will have at his disposal, not alone his own money, but also that of others.
I.I.35

The second complaint is more characteristic. It is to the effect that even if money is available, there are not enough laborers at hand at any time. The reason is that the Russian farm laborer, owing to the communal property in land, has not been fully separated from his means of production, and hence is not yet a "free wage-worker" in the full capitalist meaning of the word. But the existence of "free" wage-workers is the indispensable condition for the realization of the act M-C, the exchange of money for commodities, the transformation of money-capital into productive capital.

I.I.36

As a matter of course, the formula M-C...P...C' -M' does not represent the normal form of the circulation of money-capital, until capitalist production is fully developed, because it is conditioned on the existence of a social class of wage-laborers. We have seen that capitalist production does not only create commodities and surplus-values, but also gives rise to an ever growing class of wage-laborers, either by propagation or by the transformation of independent producers into proletarians.

I.I.37

Since the first condition for the realization of the act M-C...P...C' -M' is the permanent existence of a class of wage-workers, capital in the form of productive capital and the circulation of productive capital must precede it.

II. Second Stage. Functions of Productive Capital.

I.I.38

The circulation of capital which we have here considered begins with the act of circulation represented by the formula M-C, the transformation of money into commodities, or purchase. Circulation must therefore be supplemented by the reverse metamorphosis C-M,

the transformation of commodities into money, or sale. But the immediate result of M-C is the interruption of the circulation of the capital advanced in the form of money. By the transformation of money-capital into productive capital the value of capital has assumed a natural form in which it cannot continue to circulate, but must enter into consumption, more accurately into productive consumption.
I.I.39

The application of labor-power, labor, can not be carried into effect anywhere but in the labor process. The capitalist cannot sell the laborer along with the commodities, because the wage-worker is not a chattel slave and the capitalist does not buy anything from the laborer but the privilege of utilizing the labor-power purchased in the person of the laborer for a certain time. On the other hand, the capitalist cannot use this labor-power in any other way than by using it up in transforming, by its help, means of production into commodities. The result of the first stage of the circulation of money-capital is therefore its entrance into the second stage, that of productive capital.
I.I.40

This movement is represented by the formula M-C, P, in which the dots indicate the place where the circulation of capital is interrupted, while its rotation continues, since it passes from the sphere of the circulation of commodities into that of production. The first stage, the

transformation of money-capital into productive capital, is therefore merely the harbinger of the second, the productive stage of capital.
I.I.41

The act M presupposes that the person performing it not only has at his or her disposal values of some useful form, but also that he or she has them in the form of money. And the act consists precisely in giving away money. A man can, therefore, remain the owner of money only on the condition, that the giving away of money at the same time implies a return of money. But money can return only through the sale of commodities. Hence the above formula assumes the owner of money to be a producer of commodities.
I.I.42

Now let us look at the formula M-L. The wage worker lives only by the sale of his labor-power. The preservation of this power, equivalent to the self-preservation of the laborer, requires a daily consumption. Hence the payment of wages must be continually repeated at short intervals, in order that the wage laborer may be able to repeat acts L-M or C-M-C, by means of which he is enabled to purchase the articles required for his self-preservation. For this reason the capitalist must stand opposed to the wage worker in the capacity of a money-capitalist, and his capital must be money-capital. On the other hand, if the wage laborers, the mass of direct producers, are to perform the act L-M-C, the means of subsistence required for it must be present

in the form of purchasable commodities. This state of affairs necessitates a high degree of development of the circulation of products in the form of commodities, and this again must be preceded by a corresponding extension of the production of commodities. As soon as production by means of wage labor has become universal, the production of commodities must be the typical form of production. If this mode of production is general, it carries in its wake an ever increasing division of labor, that is to say an ever growing differentiation in the special nature of the products which are manufactured in the form of commodities by the various capitalists, an ever greater division of supplementary processes of production into independent specialties. To the extent that M-L develops, M-Pm also develops, that is to say the production of means of production to that extent differentiates from the production of commodities with those means. The means of production then stand opposed as commodities to every producer of commodities and he must buy those means in order to be able to carry on his special line of commodity production. They are derived from branches of production which are entirely divorced from his own and enter into his own branch as commodities which he must buy. The objective materials of commodity production assume more and more the character of products of other commodity manufacturers which he must purchase. And to the same extent the capitalist must become a money-capitalist, in the same ratio his capital must assume the functions of money-capital.

I.I.43

On the other hand, the same conditions which are the cause of the fundamental constitution of capitalist production, especially the existence of a class of wage laborers, also demand the transition of all commodity production into the capitalist mode of commodity production. In proportion as the capitalist mode of production develops, it has a disintegrating effect on all older forms of production, which were mainly adjusted to the individual needs and transformed only the surplus over and above those needs into commodities. Capitalist production makes of the sale of products the main incentive, without at first apparently affecting the mode of production itself. Such was, for instance, the first effect of capitalist world commerce on such nations as the Chinese, Indians, Arabs, etc. But wherever it takes root, there it destroys all forms of commodity production which are either based on the self-employment of the producers, or merely on the sale of the surplus product. The production of commodities is first made general and then transformed by degrees into the capitalist mode of commodity production.*6
I.I.44

Whatever may be the social form of production, laborers and means of production always remain its main elements. But either of these factors can become effective only when they unite. The special manner in which this union is accomplished distinguishes the different economic epochs from one another. In the present case, the

separation of the so-called free laborer from his means of production is the starting point, and we have observed the way and the conditions in which these two elements are united in the hands of the capitalist, as the productive mode of existence of his capital. The actual process which combines the personal and objective materials of commodity production under these conditions, the process of production, thus becomes in its turn a function of capital, a capitalist process of production, the nature of which has been fully analyzed in the first volume of this work. Every process of commodity production at the same time becomes a process of exploiting labor-power. But it is not until the capitalist production of commodities is established that this mode of exploitation becomes universal and typical, and revolutionizes in the course of its historical development, through the organization of the labor process and the enormous improvement of technique, the entire economic structure of society, in a manner eclipsing all former epochs.
I.I.45

The means of production and labor-power in so far as they are forms of existence of advanced capital values, are distinguished by the different roles assumed by them in the production of value, hence also of surplus-value, and known under the names of constant and variable capital. As different parts of productive capital they are further-more distinguished by the fact that the means of production in the possession of the capitalist remain his capital even outside of the

process of production, while labor-power exists in the form of individual capital only within this process. While labor-power is a commodity only in the hands of its seller, the wage worker, it becomes capital only in the hands of its buyer, the capitalist who uses it temporarily. And the means of production do not become objective parts of productive capital, until labor-power, the personal form of productive capital, is embodied in them. Human labor-power is originally no more capital than are the means of production. They assume this specific social character only under definite historically developed conditions, and the same character is impregnated upon precious metals, and still more upon money, by the same circumstances.
I.I.46

Productive capital, in performing its functions, consumes its own component parts for the purpose of transforming them into a mass of products of a higher value. Seeing that labor-power acts likewise merely as an organ of productive capital, the surplus-value produced by its surplus-labor over and above the value of its component elements is also gathered by capital. The surplus-labor of labor-power is the inexpensive labor of capital and thus forms surplus-value for the capitalist, a value which costs him no equivalent return. The product is, therefore, not only a commodity, but a commodity pregnant with surplus-value. Its value is equal to P+S, that is to say equal to the value of the productive capital consumed in its manufacture plus the

surplus-value S created by it. Assuming that this product were represented by 10,000 pounds of yarn, let us say that means of production valued at 372 pounds sterling and labor-power valued at 50 pounds sterling were consumed in the production of this quantity of yarn. During the process of spinning, the spinners transferred the value of the means of production to the amount of 372 pounds sterling to the yarn, and at the same time they created, by means of their labor-power, new values to the amount of 128 pounds sterling. The 10,000 pounds of yarn therefore represent a value of 500 pounds sterling.

III. Third Stage. C'-M'.

I.I.47

Commodities become commodity-capital by springing into existence as a direct result of commodity-production, embodying in a new form the capital values already utilized. If the production of commodities were carried on as capitalist production in all spheres of society, all commodities would be elements of commodity-capital from the outset, whether they would be composed of crude iron, Brussels laces, sulphuric acid, or cigars. The problem as to what class of commodities is destined by its nature to rank as capital and what class to serve as general commodities, is one of the self-prepared ills of the scholastic economists.

I.I.48

In the form of commodities, capital has to perform the functions of commodities. The articles of which commodity capital is composed are produced for sale and must be exchanged for money, must go through the process C-M.

I.I.49

The commodities of the capitalist may consist of 10,000 pounds of yarn. If 372 pounds sterling represent the value of the means of production consumed in the spinning process, and new values to the amount of 128 pounds sterling have been created, the yarn has a value of 500 pounds sterling, which is expressed in its price of the same amount. This price is realized by the sale C-M. What is it that makes of this simple process of all commodity circulation at the same time a capital function? It is not any change that takes place inside of it. Neither the use-value of the product has been changed, for it passes into the hands of the buyer as an object of use, nor has anything been altered in its exchange-value, for this value has not experienced any change of magnitude, but only of form. It first existed as yarn, while now it exists as money. Thus a plain distinction is evident between the first stage C-M, and the last stage C'-M'. There the advanced money serves as money-capital, because it is transformed, by means of the circulation of commodities, into articles of a specific use-value. Here, on the other hand, the commodities can

only serve as capital, since they brought this character with them from the process of production before their circulation began. During the spinning process, the spinners created new values to the amount of 128 pounds sterling in the shape of yarn. Of this sum, say 50 pounds sterling are regarded by the capitalist merely as an equivalent for wages advanced for labor-power, while 78 pounds sterling‘ representing an exploitation of 156 per cent‘are his surplus-value. I.I.50

The value of the 10,000 pounds of yarn therefore embodies first the value of the consumed productive capital P, which consists of a constant capital of 372 pounds sterling and a variable capital of 50 pounds sterling, their sum being 422 pounds sterling, equal to 8,440 pounds of yarn. Now the value of the productive capital P is equal to C, the value of the elements constituting it which the capitalist found to be in the hands of their sellers in the stage M-C. In the second place, the value of the yarn embodies a surplus-value of 78 pounds sterling, equal to 1,560 pounds of yarn. C as an expression of the value of 10,000 pounds of yarn is therefore equal to C plus surplus C, or C plus an increment of C worth 78 pounds sterling, which we shall call c, since it exists in the same commodity form as that now assumed by the original value C. The value of the 10,000 pounds of yarn, equal to 500 pounds sterling, is therefore represented by the formula C+c=C'. What changes C, the value of the 10,000 pounds of yarn, into C' is not its absolute value of 500 pounds sterling, for it is

determined, the same as C standing for the expression of the value of any other sum of commodities, by the quantity of labor embodied in it. It is rather its relative value, its value as compared to that of the productive capital P consumed in its production, which is the essential thing. This value is contained in it plus the surplus-value created through the productive capital. Its value exceeds that of the capital by the surplus-value c. The 10,000 pounds of yarn are the bearers of the consumed capital value increased by this surplus-value, and they are so by virtue of the capitalist process of production. C' expresses the relation of the value of the commodities to that of the capital advanced in its production, in other words the composition of the value of the commodities, of capital value and surplus-value. The 10,000 pounds of yarn represent a commodity-capital C' only because they are an altered form of the productive capital P, and this relation exists originally by virtue of the circulation of this individual capital, it applies primarily to the capitalist who produced the yarn by the help of his capital. It is, so to say, an internal, not an external relation which makes a commodity capital of the 10,000 pounds of yarn in their capacity of representatives of value. They are bearing the imprint of capital not in the absolute magnitude of their value, but in its relative magnitude, in the proportion of their value to that of productive capital embodied in them before they became commodities. If, then, these 10,000 pounds of yarn are sold at their value of 500 pounds sterling, this act of circulation, considered by itself, is identical with C-M, a mere transformation of the same value from the form of

a commodity into that of money. But as a special stage in the circulation of a certain individual capital, the same act is also a realization of the capital value, embodied in the commodity, to the amount of 422 pounds sterling plus the surplus-value, likewise embodied in it, of 78 pounds sterling. That is to say, it also represents C'-M', the transformation of the commodity-capital from its commodity form into that of money.*7
I.I.51

The function of C' is now that of all commodities, viz.: to transform itself into money, to be sold, to go through the circulation stage C-M. So long as the capital utilized so far remains in the form of commodity-capital and stays on the market, the process of production rests. The commodity-capital serves then neither as a creator of value nor of products. In proportion to the degree of speed with which capital throws off the commodity-form and assumes that of money, in other words, in proportion to the rapidity of the sale, the same capital-value will serve in widely different degrees as a creator of products or of values, and the scale of reproduction will be extended or abridged. It has been shown in Volume I that the effectiveness of any given capital is conditioned on factors in the productive process which are to a certain extent independent of the magnitude of its own value. Here we see that the process of circulation sets in motion new factors which are independent of the value of the capital, its effectiveness, its expansion or contraction.

I.I.52

The mass of commodities C', being the embodiment of the consumed capital, must furthermore pass in its entire volume through the metamorphosis C'-M'. The quantity sold is here the main determinant. The individual commodity figures only as an integral part of the total mass. The 500 pounds sterling are embodied in 10,000 pounds of yarn. If the capitalist succeeds in selling only 7,440 pounds of yarn at their value of 372 pounds sterling, he has recovered only the value of his constant capital, the value expended by him for means of production. If he sells 8,440 pounds of yarn, he recovers only the value of his total capital. He must sell more, in order to obtain some surplus-value, and he must sell the entire 10,000 pounds in order to get the entire surplus-value of 78 pounds sterling (1,560 pounds of yarn). In 500 pounds sterling he receives merely an equivalent for the commodity sold. His transaction within the process of circulation is simply C-M. If he had paid his laborers 64 pounds sterling instead of 50 pounds sterling, his surplus-value would be only 64 pounds sterling instead of 78, and the degree of exploitation would have been only 100 per cent instead of 150. But the value of the yarn would remain the same; only the relation of its component parts would be changed. The circulation-act C-M would still represent the sale of 10,000 pounds of yarn for 500 pounds sterling, which is their value.

I.I.53

C' is equal to C+c (or 422 plus 78 pounds st.). C equals the value of P, the productive capital, and this equals the value of M, the money advanced in the act M-C, the purchase of the elements of production, amounting to 422 pounds sterling in our example. If the mass of commodities is sold at its value, then C equals 422 pounds sterling, and c, the value of the surplus product of 1,560 pounds of yarn, equals 78 pounds sterling. If we call c, expressed in money, m, then C'-M'=(C+c)-(M+m), and the cycle M-C...P...C'-M', in its expanded form, is represented by M-C...P...(C+c)-(M+m).
I.I.54

In the first stage, the capitalist takes articles of use out of the commodity-market proper and the labor-market. And in the third stage he throws commodities back, but only into one market, the commodity-market proper. But the fact that he extracts from the market, by means of his commodities, a greater value than he threw upon it originally, is due only to the circumstance that he throws more commodity-values back upon it than he first drew out of it. He threw the value M into it and drew out of it the equivalent C; he throws the value C+c back into it, and draws out of it the equivalent M+m.
I.I.55

M was in our example equal to the value of 8,440 pounds of yarn. But he throws 10,000 pounds of yarn into the market, he returns a

greater value than he drew out of it. On the other hand, he threw this increased value into it only by virtue of the fact that he obtained a surplus-value through the exploitation of labor-power (this value being expressed by an aliquot part of the product). The mass of commodities becomes a commodity-capital only by virtue of this process, it is the impersonation of the used-up capital value only through it. By the act C'-M' the advanced capital-value is recovered as well as the surplus-value. The realization of both coincides with that series of sales, or with that one sale, of the entire mass of commodities, which is expressed by C'-M'. But this same act of circulation is different for capital-value and surplus-value, because it expresses for each one of these two values a different stage of their circulation, a different section of the series of metamorphoses through which each of them passes in its circulation. The surplus-value c did not come into the world until the process of production began. It appeared for the first time on the commodity-market in the form of commodities. This is its first form of circulation, hence the act c-m is its first circulation act, or its first metamorphosis, which remains to be supplemented by the reverse circulation, or the opposite metamorphosis, M-c.*8

I.I.56

It is different with the circulation which the capital-value C performs in the same circulation act C'-M', and which constitutes for it the circulation act C-M, in which C is equal to P, the M originally

advanced. It opened its circulation in the form of M, money-capital, and returns through the act C-M to the same form. In other words, it has now passed through the two opposite stages of the circulation, first M-C, second C-M, and finds itself once more in the form in which it can begin its cycle anew. What constitutes for surplus-value the first transformation of the commodity-form into that of money, constitutes for capital-value its return, or retransformation, into its original money-form.

I.I.57

By means of M-C, money-capital is transformed into an equivalent mass of commodities, L and Pm. These commodities no longer perform the function of commodities, of articles of sale. Their value now exists in the hands of the capitalist who bought them, they represent the value of his productive capital P. And in the function P, productive consumption, they are transformed into commodities substantially different from the means of production, into yarn, in which their value is not only preserved but increased, rising from 422 pounds sterling to 500 pounds sterling. By means of this metamorphosis, the commodities taken from the market in the first stage, M-C, are replaced by commodities of a different substance and value, which now perform the function of commodities, being exchanged for money and sold. The process of production, therefore, appears to us as an interruption of the process of circulation of capital-value, since up to production it has passed only through the

phase M-C. It passes through the second and concluding phase, C-M, after C has been altered in substance and value. But so far as capital-value, considered by itself, is concerned, it has merely gone through a transformation of its use-form in the process of production. It existed in the form of 422 pounds sterling's worth of L and Pm, while now it exists in the form of 8,440 pounds of yarn valued at 422 pounds sterling. If we consider merely the two circulation phases of capital-value, apart from its surplus-value, we find that it passes through the stages M-C and C-M, in which the second C represents a different use-value, but the same exchange-value as the first C. And the process M-C-M is, therefore, a cycle which requires the return of the value advanced in money to its money-form, because the commodity here changes places twice and in the opposite direction, the first change being from the money to the commodity-form, the second from the commodity to the money-form. Capital-value is retransformed into money.
I.I.58

The same circulation act C'-M', which constituted the second and concluding metamorphosis, a return to the money-form, for capital-value, represents for the surplus-value simultaneously embodied in the commodity-capital, and realized by its exchange for money, its first metamorphosis, its transformation from the commodity to the money-form, C-M, its first circulation phase.
I.I.59

We have, then, two observations to make. First, the final return of capital-value to its original money-form is a function of commodity-capital. Second, this function includes the first transformation of surplus-value from its original commodity-form to that of money. The money-form, then, plays a double role here. On the one hand, it is a return of a value, originally advanced in money, to its old form, a return to that form of value which opened the process. On the other hand, it is the first metamorphosis of a value which originally enters the circulation in the form of a commodity. If the commodities composing the commodity-capital are sold at their value, as we assume, then C plus c is transformed into M plus m, its equivalent. The sold commodity-capital now exists in the hands of the capitalist in the form of M plus m (422 pounds sterling plus 78 pounds sterling, equal to 500 pounds sterling). Capital-value and surplus-value are now present in the form of money, the form of the general equivalent. I.I.60

At the conclusion of the process, capital-value has resumed the form in which it entered, and can now open a new cycle of the same kind, in the form of money-capital, and go through it. Just because the opening and concluding form of this process is that of money-capital, M, we call this form of the circulation process the circulation of money-capital. It is not the form, but merely the magnitude of the advanced value which is changed in the end.

I.I.61

M plus m is a sum of money of a definite magnitude, in this case 500 pounds sterling. As a result of the circulation of capital, of the sale of commodity-capital, this sum of money contains the capital-value and the surplus-value. And these values are now no longer organically connected, as they were in the yarn, they are now arranged side by side. Their sale has given both of them an independent money form; 211-250th of this money represent the capital value of 422 pounds sterling, and 39-250th constitute the surplus-value of 78 pounds sterling. This separation of capital-value and surplus-value, which results from the sale of the commodity-capital, has not only the formal meaning to which we shall refer presently. It becomes important in the process of the reproduction of capital, according to whether m is entirely, or partially, or not at all, lumped together with M, that is to say according to whether or not it continues to perform the functions of capital-value. Both m and M may also pass through widely different cycles of circulation.
I.I.62

In M', capital has returned to its original form M, to its money-form. But it then has a form, in which it is materialized capital.
I.I.63

There is in the first place a difference of quantity. It was M, 422 pounds sterling. It is now M', 500 pounds sterling, and this difference is expressed by the quantitatively different points M...M' of the cycle, the movement of which is indicated by the dots. M' is greater than M, and M'-M is equal to the surplus-value s. But as a result of this cycle M...M' it is only M' which exists now; it is the product which marks the close of the process of formation of money-capital. M' now exists independently of the movement which it started. This movement is completed, and M' exists in its place.
I.I.64

But M', being M plus m, or in this case 500 pounds sterling, composed of 422 pounds sterling advanced capital plus an increment of 78 pounds sterling, represents at the same time a qualitative relation. It is true that this qualitative relation does not exist outside of the quantitative relation of the parts of one and the same sum. M, the advanced capital, which is now once more present in its original form (422 pounds sterling), exists as the realization of capital. It has not only preserved itself, but also realized its own capital-form, distinguished from m (78 pounds sterling), to which it stands in the relation of creator, m being its fruit, an increment born by it. It has realized its capital-form, because it is a value which has created more value. M' exists as a capital relation. M no longer appears as mere money, but it is explicitly used as money-capital, as a value which has utilized itself by creating a higher value than itself. M acts as capital

by virtue of its relation to another part of M', which it has created. Thus M' appears as a sum of values expressing the capital relation, being differentiated into functionally different parts.
I.I.65

But this expresses only a result, without showing the intermediate process which caused it.
I.I.66

Parts of value as such are not qualitatively different from one another, except in so far as they are values of different articles, of concrete things, embodied in different use-values. They are values of different commodities, and this difference is not due to their character as exchange-values. In money, all differences of commodities are extinguished, because it is an equivalent form common to all of them. A sum of money of 500 pounds sterling consists of equal elements of one pounds sterling each. Since the intermediate links of descent are extinguished in the simple form of this sum of money. and all traces of the specific differences of the individual parts of capital in the productive process have disappeared, there exists only the mental distinction between the main sum of 422 pounds sterling, which was the capital advanced, and a surplus sum of 78 pounds sterling.
I.I.67

Or, again, let M' be equal to 110 pounds sterling, of which 100 may be equal to the main sum M and 10 equal to the surplus-value s. There is an absolute homogeneity, an absence of distinctions, between the two constituent parts of the sum of 110 pounds sterling. Any 10 pounds of this sum always constitute 1-11th of the sum of 110 pounds regardless of the fact that they are also 1-10th of the advanced main sum of 100 pounds, or the excess of 10 pounds above it. Main sum and surplus sum (capital and surplus-value), may simply be expressed as fractional parts of the total sum. In our illustration, 10-11th form the main sum, and 1-11th the surplus sum. Materialized capital, at the end of its cycle, therefore appears as an undifferentiated expression, the money expression, of the capital relation.
I.I.68

True, this applies also to C' (C plus c). But there is this difference, that C', of which C and c are also proportional parts of the same homogeneous mass of commodities, indicates its origin P, the immediate product of which it is, while in M', a form derived immediately from circulation, the direct relation to P is obliterated.
I.I.69

The undifferentiated distinction between the main sum and the surplus sum, which are contained in M', so far as this expresses the result of the movement M...M', disappears as soon as it performs its active

function of money-capital and is not preserved as a fixed expression of materialized industrial capital. The circulation of money-capital can never begin with M' (although M' now performs the function of M). It can begin only with M, that is to say, it can never begin as an expression of the capital relation, but only as an advance of capital-value. As soon as the 500 pounds sterling are once more advanced as capital, in order to be again utilized, they constitute a point of departure, not one of conclusion. Instead of a capital of 422 pounds sterling, a capital of 500 pounds sterling is now advanced. It is more money than before, more capital-value, but the relation between its two constituent parts has disappeared. In fact, a sum of 500 pounds sterling might have served instead of the 422 pounds sterling as the original capital.
I.I.70

It is not an active function of money-capital to materialize in the form of M'; this is rather a function of C'. Even in the simple circulation of commodities, first in C-M, then in M-C2, money M does not figure actively until in the second movement, M-C.2 Its embodiment in the form of M is the result of the first act, by virtue of which it becomes a transformation of C.1 The capital relation contained in M', the relation of its constituent parts in the form of capital-value and surplus-value, assumes a functional importance only in so far as the repeated cycle M...M' splits M' into two circulations, one of them a circulation of capital, the other of surplus-value. In this case these

two parts perform not only quantitatively, but also qualitatively different functions, M others than m. But considered by itself, M...M' does not include the consumption of the capitalist, but emphatically only the self-utilization and accumulation of money-capital, the latter function expressing itself at the outset as a periodical augmentation of ever renewed advances of money-capital.
I.I.71

Although M' (M plus m) is the undifferentiated form of capital, it is at the same time a materialization of money-capital, it is money which has generated more money. But this is different from the role played by money-capital in the first stage, M-C. In this first stage, M circulates as money. It assumes the functions of money-capital only because it cannot serve as money unless it assumes the form of money, because it cannot transform itself in any other way into the component parts of P, L and Pm, which stand opposed to it in the form of commodities. In this circulation act it serves as money. But as this act is the first stage in the circulation of capital-value, it is also a function of money-capital, by virtue of the specific use-value of the commodities L and Pm which are bought by it. M', on the other hand, composed of M, the capital-value, and m, the surplus-value created by M, stands for materialized capital-value, expresses the purpose and the outcome, the function of the total process of circulation of capital. The fact that it expresses this outcome in the form of money, of materialized money-capital, is due to the capital-character of money-

capital, not to its money-character; for capital opened the process of circulation in the form of an advance of money. Its return to the money-form, as we have seen, is a function of C', not of money-capital. As for the difference between M and M', it is simply m, the money-form of c, the increment of C. For M' is composed of M plus m only because C' was composed of C plus c. In C', this difference and the relation of capital-value to its product, surplus-value, is already present and expressed, before both of them are transformed into M'. And in this form, these two values appear independently side by side and may, therefore, be employed in separate and distinct functions.
I.I.72

M' is the outcome of the materialization of C'. Both M' and C' are different forms of utilized capital-value, one of them the commodity, the other the money-form. Both of them share the quality of being utilized capital-value. Both of them are materialized capital, because capital-value here exists simultaneously with its product, surplus-value, although it is true that this relation is expressed in the undifferentiated form of the proportion of two parts of one and the same sum of money or commodity-value. But as expressions of capital, and in distinction from the surplus-value produced by it, M' and C' are the same and express the same thing, only in different forms. In so far as they represent utilized value, capital acting in its own role, they express the result of the function of productive capital,

the only function in which capital-value generates more value. What is common to both of them, is that money-capital as well as commodity-capital are different modes of existence of capital. Their distinctive and specific functions cannot, therefore, be anything else but the difference between the functions of money and of commodities. Commodity-capital, the direct product of the capitalist process of production, indicates its capitalist origin and is, therefore, to that extent more rational and less difficult to understand than money-capital, in which every trace of this process has disappeared. In general, all special use-forms of commodities disappear in money.
I.I.73

It is only when M' itself figures as commodity-capital, when it is the direct outcome of a productive process, instead of being a transformed product of this process, that it loses its bizarre form, that is to say, in the production of money itself. In the production of gold, for instance, the formula would be M-C...P...M (M plus m), and M' would here figure as a commodity, because P furnishes more gold than had been advanced for the elements of production contained in the first money-capital M. In this case, the irrational nature of the formula M...M' (M plus m) disappears. Here a part of a certain sum of money appears as the mother of another part of the same sum of money.

IV. The Rotation as a Whole.

We have seen that the process of circulation is interrupted at the end of its first phase, M-C. by P, which makes the commodities L and Pm parts of the substance and value of productive capital and consumes them. The result of this productive consumption is a new commodity C', which is of different composition and value than the commodities L and Pm. The interrupted process of circulation, C-M, must be completed by M-C. The basis of this second and concluding phase of circulation is C', a commodity of different composition and value than C. The process of circulation therefore appears first as M-C,1 then as C 2-M', the C2 in this second phase representing a greater value and a different use-value than C1, due to the interruption caused by the function of P which is the production of C' from elements of C, embodied in the productive capital P. The first form assumed by capital (vol. I, chap. IV), viz., M-C-M', or extended first M-C,1 second C1-M', shows the same commodity twice. It is the same commodity which is exchanged for money in the first phase and again exchanged for more money in the second phase. In spite of this essential difference, these two modes of circulation share the peculiarity of transforming in their first phase money into commodities, and in the second phase commodities into money, so that the money spent in the first phase returns in the second. On the one hand, both have in common this return of money to its starting point, on the other hand the excess of the returned money over the money first advanced. To

this extent, the formula M-C...C'-M' is apparently contained in the general formula M-C-M'.
I.I.75

It follows furthermore that equal quantities of simultaneously existing values are placed in opposition to one another and exchanged in the two metamorphoses of circulation represented by M-C and C'-M'. The change of value is due exclusively to the metamorphosis P, the process of production, which thus appears as a natural metamorphosis of capital, as compared to the merely formal metamorphosis of circulation.
I.I.76

Let us now consider the total movement, M-C...P...C'-M', or its more explicit form, M-C...P...C' (C+c) -M' (M+m). Capital here appears as a value which goes through a series of connected metamorphoses conditioned on one another and representing so many phases of the total process. Two of these phases belong to the sphere of circulation, one of them to that of production. In each one of these phases, capital-value has a different form corresponding to a different, special, function. Within this cycle, value does not only maintain itself at the magnitude in which it was originally advanced, but it increases. Finally, in the concluding stage, it returns to the same form which it had at the beginning of the cycle. This total movement constitutes the process of rotation as a whole.

I.I.77

The two forms assumed by capital-value are that of money-capital and commodity-capital. In the stage of production, its form is that of productive capital. The capital which assumes these different forms in the course of its total process of rotation, discards them one after the other, and performs a special function in each one of them, is industrial capital. The term industrial applies to every branch of industry run on a capitalist basis.

I.I.78

Money-capital, commodity-capital, productive capital are not, therefore, terms indicating independent classes of capital, nor are their functions processes of independent and separate branches of industry. They are here used only to indicate special functions of industrial capital, assumed by it seriatim.

I.I.79

The circulation of capital proceeds normally only so long as its various phases flow uninterruptedly one into the other. If capital stops short in its first phase M-C, money-capital assumes the rigid form of a hoard; if it stops in the phase of production, the means of production remain lifeless on one side, while labor-power remains unemployed on the other; and if capital stops short in its last phase C'-M', masses of unsold commodities accumulate and clog the flow of rotation.

At the same time, it is a matter of course that the rotation of capital includes the stopping of capital for a certain length of time in the various sections of its cycle. In each of these sections, industrial capital is poured into a definite mold, being either money-capital, productive capital, or commodity-capital. It does not assume a form in which it may enter a new metamorphosis, until it has gone through the function corresponding to the form preceding the new metamorphosis. In order to make this plain, we have assumed in our illustration, that the capital-value of the mass of commodities created in the phase of production is equal to the total sum of values originally advanced in the form of money, or, in other words, that the entire capital-value advanced in the form of money enters undivided from one stage into the next. Now we have seen (vol. I, chap. IV) that a part of the constant capital, the means of production proper, such as machinery, always serve repeatedly, for a greater or smaller number of times, in the same processes of production, so that they transfer their values piece-meal to the products. We shall see later, to what extent this circumstance modifies the process of rotation of capital. For the present, it suffices to say this: In our illustration, the value of the productive capital of 422 pounds sterling contained only the average wear and tear of buildings, machinery, etc., that is to say only that part of value which they transferred in the transformation of 10,600 pounds of cotton to 10,000 pounds of yarn, which represents

the product of one week's spinning, or of 60 hours. In the means of production, into which the advanced constant capital of 372 pounds sterling is transformed, the instruments of labor, buildings, machinery, etc., figure only as would objects which were rented in the market for a weekly rate. But this does not change the problem in any way. We have but to multiply the quantity of yarn produced in one week, or 10,000 pounds of yarn, with the number of weeks contained in a certain number of years, in order to transfer the entire value of the means of production bought and consumed during this period. It is then plain that the advanced money-capital must first be transformed into these means of production, must first have gone through the phase M-C, before it can be used as productive capital, P. And it is likewise plain that, in our illustration, the capital value of 422 pounds sterling, embodied in the yarn during the process of production, cannot become a part of the value of the 10,000 pounds of yarn and enter the circulation phase C'-M', until it has been produced. The yarn cannot be sold, until it has been spun.
I.I.81

In the general formula, the product of P is regarded as a material thing different from the elements of the productive capital, as an object existing apart from the process of production and having a different use-value than the elements of production. And if the fruit of production assumes the form of such an object, it always corresponds to this description, even if a part of it should re-enter production as

one of its elements. Grain, for instance, serves as seed for its own reproduction, but the final product is always grain and has a different composition than the elements used in its production, such as labor-power, implements, and fertilizer. But there are certain independent branches of industry, in which the result of the productive process is not a new material product, not a commodity. Among these, only the industries representing communication, such as transportation proper for commodities and human beings, and the transmission of communications, letters, telegrams, etc., are economically important.
I.I.82

A. Cuprov*9 says on this score: "The manufacturer may first produce articles and then look for consumers" (his product, having been completed in the process of production, is transferred to the process of circulation as a separate commodity). "Production and consumption thus appear as two acts distinct from one another in space and time. In the transportation industry, which does not create any new products, but merely transfers men and things, these two acts coincide; its services (change of place) must be consumed at the same time that they are produced. For this reason the distance, within which railroads can find customers, extends at best 50 verst (53 kilometers or about 30 miles) on either side of their tracks."
I.I.83

The result in the transportation of either men or commodities is a change of place. Yarn, for instance, is thus transferred from England, where it was produced, to India.
I.I.84

Now transportation, as an industry, sells this change of location. This utility is inseparably connected with the process of transportation, which is the productive process of transportation. Men and commodities travel by the help of the means of transportation, and this traveling, this change of location, constitutes the production in which these means of transportation are consumed. The utility of transportation can be consumed only in this process of production. It does not exist as a use-value apart from this process, it does not, like other commodities, serve as a commodity which circulates after its process of production. The exchange value of this utility is determined, like that of any other commodity, by the value of the elements of production (labor-power and means of production) plus the surplus-value created by the surplus-labor of the laborers employed in transportation. This utility also entertains the same relations to consumption that all other commodities do. If it is consumed individually, its value is used up in consumption; if it is consumed productively by entering into the process of production of the transported commodities, its value is added to that of the commodity. The formula for the transportation industry would, therefore, be M-C...P-M', since it is the process of production itself which is paid for

and consumed, not a product distinct and separate from it. This formula has almost the same form as that of the precious metals, only with the difference, that in this case M' represents the changed form of the utility resulting during the process of production, while in the case of the precious metals it represents the natural form of the gold or silver obtained in this process and transferred from it to other stages.
I.I.85

Industrial capital is the only form of existence of capital, in which not only the appropriation of surplus value or surplus product, but also its creation is a function of capital. Therefore it gives to production its capitalist character. Its existence includes that of class antagonisms between capitalists and laborers. To the extent that it assumes control over social production, the technique and social organization of the labor process are revolutionized and with them the economic and historical type of society. The other classes of capital, which appear before industrial capital amid past or declining conditions of social production, are not only subordinated to it and suffer changes in the mechanism of their functions corresponding to it, but move on it as a basis, live and die, stand and fall with this basis. Money-capital and commodity-capital, so far as they still persist as independent branches of industry along with industrial capital, are nothing but modes of existence of different functional forms either assumed or discarded by

industrial capital in the sphere of circulation, made independent and developed one-sidedly by the social division of labor.
I.I.86

The cycle M...M' on one side intermingles with the general circulation of commodities, proceeds from it and flows back into it, is a part of it. On the other hand, it is for the individual capitalist an independent movement of his capital value, taking place partly within the general circulation of commodities, partly outside of it, but always preserving its independent character. For in the first place, its two phases taking place in the sphere of circulation, M-C and C'-M', have functionally different characters as functions of capital circulation. In M-C, the commodity C is composed of labor-power and means of production; in C'-M', capital value is realized plus surplus-value. In the second place, the process of production, P, includes productive consumption. In the third place, the return of money to its starting point makes of the cycle M...M' a process of circulation complete in itself.
I.I.87

Every individual capital is therefore, on the one hand, in its two phases M-C and C'-M', an active element in the general circulation of commodities, with which it is connected either as money or as a commodity. Thus it forms a link in the general chain of metamorphoses in the world of commodities. On the other hand, it goes through its own independent circulation within the general

circulation. Its independent circulation passes through the sphere of production and returns to its starting point in the same form in which it left that point. Within its own circulation, which includes its natural metamorphosis in the process of production, it changes at the same time its value. It returns not only as the same money-value, but as an increased money-value.
I.I.88

Let us finally consider M-C...P...C'-M' as a special form of the process of circulation of capital, apart from the other forms which we shall analyze later. It is distinguished by the following points:
I.I.89

1. It appears as the circulation of money-capital, because industrial capital in its money form, as money-capital, forms the starting and terminal point of its total process. The formula itself expresses the fact that money is not expended as money at this stage, but advanced as the money-form of capital. It expresses furthermore that exchange-value, not use-value, is the determining aim of this movement. Just because the money-form of this value is its tangible and independent form, the compelling motive of capitalist production, the making of money, is most fittingly expressed by the circulation formula M...M.' The process of production appears merely as an indispensable and intermediate link, as a necessary evil of money-making. All nations with a capitalist mode of production are seized

periodically by a feverish attempt to make money without the mediation of the process of production.
I.I.90

2. The stage of production, the function of P, represents an interruption of the two phases of circulation M-C...C'-M', which in their turn represent links in the simple circulation M-C-M'. The process of production appears formally and essentially in circulation as that which is typical of capitalist production, that is to say as a mere means of utilizing previously advanced values. The accumulation of wealth is the purpose of production.
I.I.91

3. Since the series of phases is opened by M-C, the second link of the circulation is C'-M.' In other words, the starting point is M, or the money-capital to be utilized, the terminal point M', or the utilized money-capital M plus m, in which M figures together with its offspring m. This distinguishes the circulation of M from that of the two other cycles P and C', in two ways. On one side, its two extremes are represented by the money-form. And money is the tangible form of value, the value of the product in its independent form, in which every trace of the use-value of the commodities has been extinguished. On the other side, the formula P...P is not necessarily transformed into P...P' (P plus p,) and in the form C-C', no difference in value is visible between the two extremes. It is, therefore,

characteristic for the formula M-M' that capital value is its starting point, and utilized capital value its terminal point, so that advanced capital value appears as the means, and utilized capital value as the end of the entire operation. And furthermore, this relation is expressed in the form of money, in the form of independent value, so that money-capital is money generating more money. The generation of surplus-value by value is not only expressed as the Alpha and Omega of the process, but more explicitly in the form of glittering money. I.I.92

4. Since M', the money-capital realized as a result of C'-M', the supplementary and concluding form of M-C, has absolutely the same form in which it began its first circulation, it can immediately begin the same circulation over again as an increased (accumulated) money-capital, or as M' equal to M plus m. And it is not expressed in the formula M-M' that, in the repetition of the cycle, the circulation of m separates from that of M. Considered in its complete form, the circulation of money capital expresses simply the process of utilization and accumulation. The consumption in it is productive consumption, as shown by the formula M-C and it is only this which is included in this circulation of individual capital. M-L means L-M, or C-M, on the part of the laborer. It is therefore the first phase of circulation which promotes his individual consumption, thus: L-M-C (means of subsistence). The second phase, M-C, no longer falls within the circulation of individual capital, but it is initiated by individual capital

and an indispensable premise for it, since the laborer must above all live and maintain himself by individual consumption, in order to be always on the market for exploitation by the capitalist. But this consumption is here only assumed as the indispensable condition for the productive consumption of labor power by capital, and it is, therefore, considered only in so far as it preserves and reproduces his labor power by means of his individual consumption. But the means of production Pm, the commodities proper which enter into the circulation of capital, are only material feeding the productive consumption. The act L-M promotes the individual consumption of the laborer, the transformation of means of subsistence into flesh and blood. It is true, that the capitalist must also be present, must also live and consume in order to perform the function of a capitalist. To this end, he has, indeed, but to consume in the same way as the laborer, and this is all that is assumed in this form of the circulation process. But it is not formally expressed, since the term M' concludes the formula and indicates that it may at once re-enter on its function of increased money-capital.
I.I.93

In the formula C'-M', the sale of C' is directly indicated; but this sale C'-M' on the part of one is M-C, or the purchase of commodities, on the part of another, and in the last analysis a commodity is bought only for its use-value, in order to enter (leaving intermediate sales out of consideration) into the process of consumption, and this may be

either productive or individual consumption, according to the nature of the commodity. But this consumption does not enter into the circulation of individual capital, the product of which is C'. This product is eliminated from this circulation from the moment that it is sold. C' is explicitly produced for consumption by others. For this reason we note that certain spokesmen of the mercantile system (which is based on the formula M-C...P...C'-M') deliver lengthy sermons to the effect that the individual capitalist should consume only in his capacity as a worker, that capitalist nations should let other and less intelligent nations consume their own and other commodities, and that a capitalist nation should devote itself for life to the productive consumption of commodities. These sermons frequently remind us in form and content of analogous ascetic exhortations of the fathers of the church.

I.I.94

The rotation process of capital is therefore a combination of circulation and production, it includes both. In so far as the two phases M-C and C'-M' are processes of circulation, the rotation of capital is a part of the general circulation of commodities. But in so far as they are definite sections performing a peculiar function in the rotation of capital, which combines the spheres of circulation and production, capital goes through its own circulation in the general circulation of commodities. The general circulation of commodities serves capital in

its first stage as a means of assuming that form in which it can perform the function of productive capital; in its second stage, it serves to eliminate the commodity function in which capital cannot renew its circulation; at the same time it enables capital to separate its own circulation from that of the surplus-value created by it.
I.I.95

The circulation of money-capital is therefore the most one-sided, and thus the most convincing and typical form of the circulation of industrial capital. Its aim and compelling motive, the utilization of value, the making and accumulation of money, is thus most clearly revealed. Buying in order to sell dearer is its slogan. The first phase M-C also indicates the origin of the elements of productive capital in the commodity market, or more generally, the dependence of the capitalist mode of production on circulation, on commerce. The circulation of money-capital is not merely the production of commodities; it is itself possible only through circulation of commodities and based on it. This is plain from the fact that the term M belongs to circulation and represents the first and most typical form of advanced capital-value. This is not the case in the other two forms of circulation.
I.I.96

The circulation of money-capital always remains the general expression of industrial capital, because it always implies the utilization of the

advanced value. In P...P, the money-character of capital is shown only in the price of the elements of production as a value expressed in money-terms for the purpose of calculation and book-keeping.
I.I.97

M...M' becomes a special form of the circulation of industrial capital when new capital is first advanced in the form of money and then returned in the same form, either in passing from one branch of industry to another, or in the case that industrial capital retires from business. This includes the capital function of the surplus-value first advanced in the form of money, and becomes most evident when surplus-value performs a function in some other business than the one in which it originated. M...M' may be the first circulation of a certain capital; it may be the last; it may be regarded as the form of the total social capital; it is that form of capital which is newly invested, either as a recently accumulated capital in the form of money, or as some old capital which is entirely transformed into money for the purpose of transfer from one branch of industry to another.
I.I.98

Being a form always contained in all circulations, money-capital performs this circulation precisely for that part of capital which produces surplus-value, viz., variable capital. The normal form of an advance in wages is payment in money; this process must be renewed in short intervals, because the laborer lives from hand to

mouth. In his relation to the laborer, the capitalist must therefore always be a money-capitalist, and his capital must be money-capital. There can be no direct or indirect balancing of accounts in this case, such as we find in the purchase of means of production or in the sale of productive commodities, where the greater part of the money capital really exists in the form of commodities, while the money is mainly used for purposes of calculation and figures in cash only in the balancing of accounts. On the other hand, a part of the surplus-value arising out of variable capital is spent by the capitalist for his individual consumption, which is a part of the retail trade, and this surplus-value is in the last analysis always expended in the form of money. It does not matter how large or small may be this part of surplus-value. Variable capital always appears anew as money-capital invested in wages (M-L) and m as surplus-value which may be expended for the individual consumption of the capitalist. So that M, capital advanced for wages, and m, its increment, are necessarily held and spent in the form of money.
I.I.99

The formula M-C...P...C'-M', with its result M' equal to M plus m, is, in a certain sense, deceptive, owing to the existence of the advanced and surplus-value in the form of the general equivalent, money. The emphasis in this formula is not on the utilization of value, but on the money-form of this process, on the fact that more money-value is finally drawn out of the circulation than had originally been advanced;

in other words, the emphasis is on the multiplication of the amount of gold and silver belonging to the capitalist. The so-called monetary system is merely the expression of the abstract formula M-C-M', a movement which takes place exclusively in the circulation. And this system cannot explain the two phases M-C and C-M' in any other way than by declaring that C is sold above its value in the second phase and thus draws more money out of the circulation than was put into it in its purchase. But if M-C...P...C'-M' becomes the exclusive form of circulation, it is the basis of a more highly developed mercantile system, in which not only the circulation of commodities, but also their production, is recognized as a necessary element.
I.I.100

The illusive character of M-C...P...C'-M' and the resulting illusive interpretation always appear, whenever this form is considered as rigid, not as a flowing and ever renewed movement; in other words, they appear whenever this formula is considered not as one section of circulation, but as the exclusive form of circulation. But it itself points toward other forms.
I.I.101

In the first place, this entire circulation is conditioned on the capitalist character of the process of production, and considers it and the specific social conditions created by it as the basis. M-C is equal to M-C but M-L assumes the existence of the wage laborer, and regards

the means of production as parts of productive capital. It assumes, therefore, that the process of labor and of utilization, the process of production, is a function of capital.
I.I.102

In the second place, if M...M' is repeated, the return to the money-form is just as transient as the money-form in the first phase. M-C disappears and makes room for P. The recurrent advance of money-capital and its equally persistent return in the form of money appear merely as passing moments in the general circulation.
I.I.103

In the third place; the repeated formula has this form: M-C...P...C'-M'. M-C...P...C'-M'. M-C...P...etc.
I.I.104

Beginning with the second repetition of the circulation, the cycle P...C'-M'.M-C...P appears, before the second circulation of M is completed, and all other cycles may be considered under the form of P...C'-M-C...P, so that the first phase of the first circulation is merely the passing introduction for the constantly repeated circulation of the productive capital. And this is indeed the case for the first time in the investment of industrial capital in the form of money.
I.I.105

On the other hand, before the second circulation of P is completed, the first circulation, that of the commodity-capital, as shown in the formula C'-M'. M-C...P...C' (or abridged C'...C') has preceded. Thus the first form already contains the other two, and the money-form disappears, so far as it is a general equivalent and not merely an expression of value used for calculation.
I.I.106

Finally, if we consider some newly invested capital going for the first time through the circulation M-C...P...C'-M', then M-C is the introductory phase, the preparation for the first process of production undertaken by this capital. This phase M-C is not considered as existing, but is caused by the requirements of the process of production. But this applies only to this individual capital. The general form of the circulation of industrial capital is the circulation of money-capital, whenever the capitalist mode of production exists and with it the social conditions corresponding to it. It is therefore the capitalist mode of production which is the first condition for the circulation of money-capital, and if it is not assumed for the first phase of a newly invested industrial capital, it is certainly assumed for all others. The continuous movement of this process of production requires the persistent renewal of the cycle P...P. Even the first stage, M-C, reveals this basic condition. For it requires on one side the existence of the wage-working class. On the other side, that which is M-C for the buyer of means of production, is C'-M' for their seller. Hence C'

presupposes the existence of commodity-capital, and thus of commodities as the result of capitalist production, and this implies the function of productive capital.

Notes for this chapter

4.
From Manuscript II.
5.
Beginning of Manuscript VII, started July 2, 1878.
6.
End of Manuscript VII. Beginning of Manuscript VI.
7.
End of Manuscript VI. Beginning of Manuscript V.
8.
This is true, no matter how we separate capital-value and surplus-value. 10,000 lbs. of yarn contain 1,560 lbs., or 78 pounds sterling, surplus-value; but one lb., or one shilling, likewise contains 2,496 ounces, or 1,728 pence of surplus-value.
9.
A. Cuprov: Zeleznodoroznoje chostjajstvo, Moskva, 1875, pg. 75 and 76.

Part I,

Volume II Chapter II THE ROTATION OF PRODUCTIVE CAPITAL.

I.II.1

The rotation of productive capital has the general formula P...C'-M'-C...P. It signifies the periodical renewal of the function of productive capital, in other words its reproduction, or its process of production as a reproductive process generating surplus-value. It is not only production, but a periodical reproduction of surplus-value; it is the function of industrial capital in its productive form, and this function is not performed merely once, but periodically so that the terminal point of one cycle is the starting point of another. A portion of C' may re-enter directly into the same labor process as means of production out of which it came in the form of commodities (for instance, in various branches of investment of industrial capital). This merely does away with the transformation of its value into money proper, or token-money, or else it finds an independent expression merely in calculation. This part of value does not enter into the circulation. Thus it is that values enter into the process of production which do not enter into circulation. The same is also true of that part of C' which is consumed by the capitalist, and which represents surplus-value in the form of means of consumption, in their natural state. But this is inconsiderable for capitalist production. It deserves consideration, if at all, only in agriculture.

I.II.2

Two things are at once apparent in this form.
I.II.3

In the first place, while in the first form, M...M', the process of production, a function of P, interrupts the circulation of money-capital and acts only as a mediator between its two phase M-C and C'-M', it is the entire circulation process of industrial capital, its entire movement within the sphere of circulation, which intervenes here and forms the connecting link between productive capitals, which begin the circulation at one extreme and close it at another, only to make this last extreme the starting point of a new cycle. Circulation proper appears but as an instrument promoting the periodic renewal, and thus the continuous reproduction, of productive capital.
I.II.4

In the second place, the entire circulation assumes a form which is the reverse of that which it has in the circulation of money-capital. While the circulation of money-capital proceeds after the formula M‘C‘ M (M‘C. C‘M), making exception of the determination of value, it proceeds in the case of productive capital, making the same exception, after the formula C‘M‘C (C‘M. M‘C). which is the form of the simple circulation of commodities.

I. Simple Reproduction.

I.II.5

Let us first consider the process C‘M'‘C, which takes place between the two extremes P...P.
I.II.6

The starting point of this circulation is the commodity-capital C', equal to C plus c, or equal to P plus c. The function of commodity-capital C‘M' has been considered in the first form of the circulation. It consisted in the realization of the capital-value P, contained in it, which now exists as a part of the commodity C, and likewise in the realization of the surplus-value contained in it, which now exists as a part of the same mass of commodities C and has the value of c. But in the former case, this function formed the second phase of the interrupted circulation and the concluding phase of the entire cycle. In the present case, it forms the second phase of the cycle, but the first phase of the circulation. The first cycle ends with M', and since M' as well as the original M may again open the second cycle as money-capital, it was not necessary for the moment to analyze whether the parts of M', viz., M and m (surplus-value) continue in their course together, or whether each one of them pursues its own course. This would only have been necessary, if we had followed up the first cycle in its renewed course. But in studying the cycles of productive capital, this point must be decided, because the determination of its very first

cycle depends on it, and because C'‘M' appears in it as the first phase of circulation which has to be supplemented by M‘C. It depends on the outcome of this decision, whether our formula represents the simple reproduction, or reproduction on an enlarged scale. The character of the cycle changes according to this decision.
I.II.7

Let us, then, take first the simple reproduction of productive capital, assuming that the conditions are the same as those taken for a basis in the first chapter, and that the commodities are bought and sold at their value. Under these conditions, the entire surplus-value enters into the individual consumption of the capitalist. As soon as the transformation of the commodity-capital C' into money has taken place, that part of the money which represents the capital-value continues in the cycle of industrial capital; the other part, which represents surplus-value in the form of gold, enters into the general circulation of commodities as a circulation of money emanating from the capitalist but taking place outside of the circulation of his individual capital.
I.II.8

In our illustration, we had a commodity-capital C' of 10,000 pounds of yarn, valued at 500 pounds sterling; 422 pounds sterling of this represent the value of productive capital and continue, as the money-form of 8,440 pounds of yarn, the capital circulation begun by C',

while the surplus-value of 78 pounds sterling, as the money-form of 1,560 pounds of yarn, the surplus-product, leaves this circulation and describes its own separate course within the general circulation of commodities.

equation

I.II.9

The formula m‘c represents a series of purchases by means of money which the capitalist spends either in commodities proper or for personal services to his cherished self or family. These purchases are made piece-meal at various times. Money, therefore, exists temporarily in the form of a supply, or hoard, of money destined for gradual consumption, for money interrupted in its circulation partakes of the nature of a hoard. Its function as a circulating medium, including that of a temporary hoard, does not share in the circulation of capital having the form of money M. This money is not advanced, but spent.
I.II.10

We have assumed that the advanced total capital always passed entirely from one of its phases into the other. In this case, we, therefore, assume that the mass of commodities produced by P represents the total value of the productive capital P, or 422 pounds sterling plus 78 pounds sterling of surplus-value created in the process

of production. In our illustration, which deals with an easily analyzed commodity, the surplus-value exists in the form of 1,560 pounds of yarn; if computed on the basis of one pound of yarn, it would exist in the form of 2.496 ounces. But if the commodity were, for instance, a machine valued at 500 pounds sterling and representing the same division of values, one part of the value of this machine would indeed be represented by 78 pounds sterling of surplus-value, but these 78 pounds sterling would exist only in the machine as a whole. This machine cannot be divided into capital-value and surplus-value without breaking it to pieces and thus destroying, with its use-value, also its exchange-value. For this reason the two parts of value can be represented only ideally as portions of a mass of commodities, not as independent elements of the commodity C', such as we are able to distinguish in each pound of yarn in the 10,000 pounds of our illustration. In the case of the machine, the total commodity representing the commodity-capital must be sold before m can enter into its independent circulation. On the other hand, when the capitalist has sold 8,440 pounds of yarn, the sale of the remaining 1,560 pounds of yarn would represent an entirely separate circulation of the surplus-value in the form of c (1,560 pounds of yarn)‘m (78 pounds sterling) equal to c (articles of consumption). But the elements of value of each individual portion of yarn in the 10,000 pounds may be individually separated and valuated the same as the total quantity of yarn. Just as the entire 10,000 pounds of yarn may be divided into the value of the constant capital c (7,440 pounds of yarn worth 372

pounds sterling), variable capital v (1,000 pounds of yarn worth 50 pounds sterling, and surplus-value s (1,560 pounds of yarn worth 78 pounds sterling), so every pound of yarn may be divided into c (11.904 ounces of yarn worth 8.929 d.), v (1.600 ounces of yarn worth 1.200 d.), and s (2.496 ounces of yarn worth 1.872 d.). The capitalist might also sell various portions of the 10,000 pounds of yarn successively and consume the different portions of surplus-value contained in them in the same way, thus realizing gradually the sum of c plus v. But this operation likewise requires the final sale of the entire lot, so that the value of c plus v would be made good by the sale of 8,440 pounds of yarn (vol. I, chap IX, 2).
I.II.11

However that may be, by the movement C'‘M', both the capital-value and surplus-value contained in C' secure a separate existence in separate sums of money. In both cases, M and m are actually transformed values, which had originally only an ideal existence in C as prices of commodities.
I.II.12

The formula c‘m‘c represents the simple circulation of commodities, the first phase of which, c‘m, is included in the circulation of the commodity-capital C'‘M', in short, included in the cycle of capital; while its supplementary phase m‘c falls outside of this cycle and is a separate process in the general circulation of commodities. The

circulation of C and c, of capital-value and surplus-value, is differentiated after the transformation of C' into M'. Hence it follows:
I.II.13

First, by the realization on the commodity-capital in the process C'‘M', or C'‘(M+m), the courses of capital-value and surplus-value, which are united so long as they are both embodied in the same mass of commodities in C'‘M', are separated, for both of them henceforth appear in two independent sums of money.
I.II.14

Second, after this separation has taken place, m being spent as the income of the capitalist, while M continues its way as a functional form of capital-value in a course determined by this cycle, the movement C'‘M' in connection with the subsequent movements M‘C and m‘c, may be represented in the form of two different circulations, viz.: C‘M‘C and c‘m‘c, and both of these, so far as their general form is concerned, belong to the general circulation of commodities.
I.II.15

By the way, in the case of commodities which cannot be cut up into their constituent parts, it is a matter of practice to isolate their different portions of value and surplus-value ideally. In the building-business of London, for instance, which is carried on mainly on credit, the contractor receives advances in proportion to the different stages

in which the construction of a house proceeds. None of these stages is a house, but only an actually existing fraction of the growing house; in spite of its actuality, each stage is but an ideal portion of the entire house, but it is real enough to serve as security for an additional advance. (See on this point chapter XII, vol. II.)
I.II.16

Third, if the movement of capital-value and surplus-value, which proceeds unitedly so long as they are in the form of C and M, is separated only in part (so that a portion of the surplus-value is not spent as income), or is not separated at all, a change takes place in the capital-value itself within its own cycle, before it is completed. In our illustration the value of the productive capital was equal to 422 pounds sterling. If it continues its cycle M-C, for instance as 480 pounds sterling or 500 pounds sterling, then it goes through the further stages of its cycle with an increase of 58 pounds sterling or 78 pounds sterling over its original value. This change may also go hand in hand with a change in the proportion of its component parts.
I.II.17

C'‘M', the second stage of the circulation and the final stage of cycle I (M...M'), is the second stage in our cycle and the first in the circulation of commodities. So far as the circulation is concerned, this stage must be supplemented by M'‘C'. But C'‘M' has not only passed the process of utilization (in this case the function of P, the first

stage), but has also realized as its result the commodity C'. The process of utilization of capital, and the realization on the commodities which are its product, are therefore completed in C'‘M'.
I.II.18

We have started out with simple reproduction and assumed that m‘c separates entirely from M‘C. Since both circulations, c‘m‘c as well as C‘M‘C, belong to the circulation of commodities, so far as their general form is concerned (and do not show, for this reason, any difference in the value of their extremes), it is easy to conceive of the process of capitalist production, after the manner of vulgar economy, as a mere production of commodities, of use-value destined for consumption of some sort, which the capitalist produces for no other purpose than that of getting in their place commodities with different use-values, or exchanging them, as vulgar economy erroneously states.
I.II.19

C' appears from the very outset as commodity-capital, and the purpose of the entire process, the accumulation of wealth, does not exclude an increasing consumption on the part of the capitalist in proportion as his surplus-value (and thus his capital) increases; on the contrary, it promotes such an increasing consumption.
I.II.20

Indeed, in the circulation of the income of the capitalist, the produced commodity c, or the ideal fraction of the commodity C corresponding to it, serves merely for its transformation, first into money, and from money into a number of other commodities required for individual consumption. But we must not, at this point, overlook the trifling circumstance that c is that part of the commodity-value which did not cost the capitalist anything, since it is the embodiment of surplus-labor and steps originally on the stage as a part of the commodity-capital C'. This c is, by the varying nature of its existence, bound to the cycle of circulating capital-value, and if this cycle is clogged, or otherwise disturbed, not only the consumption of c is restricted or entirely arrested, but also the disposal of that series of commodities which are to take the place of c. The same is true in the case that the movement C'–M' is a failure, or that only a part of C' is sold. I.II.21

We have seen that c–m–c, as representing the circulation of the revenue of the capitalist, enters into the circulation of capital only so long as c is a part of the value of C', of the commodity-capital; but that, as soon as it materializes in the form of m–c, that is to say, as soon as it completes the entire cycle c–m–c, it does not enter into the movements of the capital advanced by the capitalist, although this advance is its cause. It is connected with the movements of capital only in so far as the existence of capital presupposes the existence of

the capitalist, and this is conditioned on the consumption of surplus-value by the capitalist.
I.II.22

Within the general circulation, C', for instance yarn, passes only as a commodity; but as an element in the circulation of capital it performs the function of commodity-capital, and capital-value alternately assumes and discards this form. After the sale of the yarn to a merchant, it has passed out of the circulation of the capital which produced it, but nevertheless, as a commodity, it moves always in the cycle of the general circulation. The circulation of one and the same mass of commodities continues, although it may have ceased to be an element in the independent cycle of the capital of the manufacturer. Hence the actual and final metamorphosis of the mass of commodities thrown into circulation by the capitalist by means of C‘M, their final elimination in consumption, may be separated in space and time from that metamorphosis in which this same mass of commodities performs the function of commodity-capital. The same metamorphosis which has been completed in the circulation of capital still remains to be accomplished in the sphere of the general circulation.
I.II.23

This state of things is not changed by the transfer of this yarn to the cycle of some other industrial capital. The general circulation comprises as much the interrelations of the various independent fractions of

social capital, in other words, the totality of the individual capitals, as the circulation of those values which are not thrown on the market as capital, but enter into individual consumption.
I.II.24

The different relations in the cycle of capital, according to whether it is a part of the general circulation, or forms certain links in the independent cycles of capital, may be further understood when we consider the circulation of M', or of M plus m. M as money-capital, continues the cycle of capital. On the other hand m, spent as revenue in the act m‘c, enters into the general circulation, but is eliminated from the cycle of capital. Only that part enters the capital cycle which performs the function of additional money-capital. In c‘m‘c, money serves only as coin, and the purpose of this circulation is the individual consumption of the capitalist. It is significant for the idiocy of vulgar economy that it pretends to regard this circulation, which does not enter into the circulation of capital but is merely the circulation of that part of the surplus-product which is consumed as revenue, as the characteristic cycle of capital.
I.II.25

In its second phase, M‘C, the capital-value M (which is equal to P, the value of the productive capital that at this point re-opens the cycle of industrial capital) is again present, delivered of its surplus-value. Therefore it has once more the same magnitude which it had

in the first stage of the cycle of money-capital, M‘C. In spite of the different place at which we now find it, the function of money-capital, into which form the commodity-capital has now been transformed, is the same: Transformation into Pm and L, into means of production and labor-power.
I.II.26

Simultaneously with c‘m, capital-value in the function of commodity-capital (C'‘M') has also gone through the phase C‘M, and enters now into the supplementary phase M‘C. Its complete circulation is, therefore, C‘M‘C Pm.
I.II.27

First: Money-capital M appeared in cycle I (M...M') as the original form in which capital-value is advanced; it appears at the very outset as a part of that sum of money into which commodity-capital transformed itself in the first phase of circulation, C'‘M'. It is from the beginning the transformation of P by means of the sale of commodities into the money-form. Money-capital exists here as that form of capital-value which is neither its original nor its final one, since the phase M‘C, which supplements the phase C‘M, can only be completed by again discarding the money-form. Therefore, that part of M‘C which is at the same time M‘L appears now no longer as a mere advance of money in the purchase of labor-power, but also as an advance by means of which the same 1,000 pounds of yarn, valued

at 50 pounds, which form a part of the commodity-value created by labor-power, are given to the laborer in the form of money. The money thus advanced to the laborer is merely a transformed equivalent of a fraction of the value of the commodities produced by himself. And for this very reason, the act M‘C, so far as it means M‘ L, is by no means simply a replacement of a commodity in the form of money by a commodity in the form of a use-value, but it includes other elements which are in a way independent of the general circulation of commodities.
I.II.28

M' appears as a changed form of C', which is itself a product of a previous function of P, of the process of production. The entire sum of money M is therefore a money-expression of past labor. In our illustration, 10,000 pounds of yarn (worth 500 pounds sterling), are the product of the spinning process. Of this quantity, 7,440 pounds represent the advanced constant capital c (worth 372 pounds sterling); 1,000 pounds represent the advanced variable capital v (worth 50 pounds sterling); and 1,560 pounds represent the surplus-value s (worth 78 pounds sterling). If in M', only the original capital of 422 pounds sterling is again advanced, other conditions remaining the same, then the laborer receives next week, in M‘L, only a part of the 10,000 pounds of yarn produced in this week (the money-value of 1,000 pounds of yarn). As a result of C‘M, money is always the expression of past labor. If the supplementary act M‘C takes place at

once on the commodity-market and M is given in return for commodities existing in this market, then this act is again a transformation of past labor from the money-form into the commodity-form. But M‘C differs in the matter of time from C‘M. True, these two acts may exceptionally take place at the same time, for instance when the capitalist who performs the act M‘C and the other capitalist for whom this act signifies C‘M mutually ship their commodities at the same time and M is used only to square the balance. The difference in time between the performance of C‘M and M‘C may be considerable or insignificant. Although M, as the result of C‘M, represents past labor, it may, in the act M‘C, represent the changed form of commodities which are not as yet on the market, but will be thrown upon it in the future, since M‘C need not take place until C has been produced anew M may also stand for commodities which are produced simultaneously with the C whose money-expression M is; for instance, in the movement M‘C (purchase of means of production), coal may be bought before it has been mined. In so far as m represents an accumulation of money which is not spent as revenue, it may stand for cotton which will not be produced until next year. The same holds good of the revenue of the capitalist represented by m‘c. It also applies to wages, in this case to L equal to 50 pounds sterling; this money is not only the money-form of the past labor of the laborers, but at the same time a draft on simultaneously performed labor or on future labor. The laborer may buy for his wages a coat which will not be made until next week. This applies

especially to the vast number of necessary means of subsistence which must be consumed almost as soon as they have been produced, to prevent their being spoiled. Thus the laborer receives in the money which represents his wages the changed form of his own future labor or that of others. By means of a part of the laborer's past labor, the capitalist gives him a draft on his own future labor. It is the laborer's simultaneous or future labor which represents the not yet existing supply that will pay for his past labor. In this case, the idea of the formation of a supply disappears altogether.
I.II.29

Second: In the circulation C‘M‘C the same money changes places twice; the capitalist first receives it as a seller and gives it away as a buyer; the transformation of commodities into the money-form serves only for the purpose of retransforming it from money into commodities; the money-form of capital, its existence as money-capital, is therefore only a passing factor in this movement; or, so far as the movement proceeds, money-capital appears only as a circulating medium when it serves to buy things; on the other hand, money-capital performs the function of a paying medium when capitalists buy mutually from one another and square only the balance of their accounts.
I.II.30

Third: The function of money-capital, whether it is a mere circulating medium or a paying medium, mediates only the renewal of C by L and Pm, that is to say, the renewal of the commodities produced by productive capital, such as yarn (after deducting the surplus-value used as revenue), out of its constituent elements, in other words, the retransformation of capital-value from its commodity-form into the elements constituting this commodity. In the last analysis, the function of money-capital mediates only the retransformation of commodity-capital into productive capital.
I.II.31

In order that the cycle may be completed normally, C' must be sold at its value and completely. Furthermore, C‘M‘C does not signify merely the replacing of one commodity by another, but also the replacing of the same relative values. We assume that this takes place here. As a matter of fact, however, the values of the means of production vary; it is precisely capitalist production which has for its characteristic a continuous change of value-relations, and this is conditioned on the ever changing productivity of labor, which is another characteristic of capitalist production. This change in the value of the factors of production will be discussed later on, and we merely refer to it here. The transformation of the elements of production into commodity-products, of P into C', takes place in the sphere of production, while their retransformation from C' into P takes place in the sphere of circulation; it is accomplished by way of the simple

metamorphosis of commodities, but its content is a phase in the process of reproduction, regarded as a whole. C‘M‘C, considered as a form of the circulation of capital, includes a change of substance due to this function. The process C‘M‘C requires that C should be identical with the elements of production of the quantity of commodities C', and that these elements maintain their relative proportions toward one another. It is, therefore, understood that the commodities are not only bought at their value, but also that they do not undergo any change of value during their circulation. Otherwise this process cannot run normally.
I.II.32

In M...M', the factor M represents the original form of capital-value, which is discarded only to be resumed. In P...C'‘M''C...P, the factor M represents a form which is only assumed in this process and which is discarded before this process is over with. The money-form appears here only as a passing independent form of capital-value. Capital is just as anxious to assume this form in C' as it is to discard it in M' after barely assuming it, in order to again transform itself into productive capital. So long as it remains in the money-form, it does not perform the function of capital and does not, therefore, generate new values; it then lies fallow. M serves here as a circulating medium, but as a circulating medium of capital. The semblance of independence, which the money-form of capital-value possesses in the first form of the circulation of money-capital, disappears in this second

form, which, therefore, is the negation of the first form and reduces it to a concrete form. If the second metamorphosis M‘C meets with any obstacles‘for instance, if there are no means of production in the market‘the uninterrupted flow of the process of reproduction is arrested, quite as much as it is when capital in the form of commodity-capital is held fast. But there is this difference: It can remain longer in the money-form than in that of commodities. It does not cease to be money, if it does not perform the functions of money-capital; but it does cease to be a commodity, or even a use-value, if it is interrupted too long in its functions of commodity-capital. Furthermore, it is capable in its money-form, of assuming another form instead of its original one of productive capital, while it does not change places at all if held in the form of C'.
I.II.33

C'‘M''C includes processes of circulation only for C', and they are phases in its reproduction, but the actual reproduction of C, into which C' is transformed, is necessary for the completion of C'‘M''C. This, however, is conditioned on a process of reproduction which lies outside of the process of reproduction of the individual capital represented by C'.
I.II.34

In the first form, M‘C Pm prepares only the first transformation of money-capital into productive capital; in the second form, it prepares

the retransformation of commodity-capital into productive capital; that is to say, so far as the investment of industrial capital remains the same, the commodity-capital is retransformed into the same elements of production out of which it originated. Here as well as in the first form, the process of production is in a preparatory stage, but it is a return to it and its renewal, it is for the purpose of repeating the process of self-utilization.
I.II.35

It must be noted, once more, that M‘L is not merely the exchange of commodities, but the purchase of a commodity L, which is to serve for the production of surplus-value, just as M‘Pm is a process which is indispensable for the same end.
I.II.36

When M‘C has been completed, M has been retransformed into productive capital P, and the cycle begins anew.
I.II.37

The elaborated form of P…C‘M'‘C…P is

I.II.38

The transformation of money-capital into productive capital is the purchase of commodities for the purpose of producing commodities.

Consumption falls within the cycle of capital only in so far as it is productive consumption; its premise is that surplus-value is produced by means of the commodities so consumed. And this is quite different from a production, even though it be a production of commodities, which has for its end the existence of the producer. A replacing of one commodity by another for the purpose of producing surplus-value is a different matter than the exchange of products which is perfected merely by means of money. But some economists use this sort of exchange as a proof that there can be no overproduction.
I.II.39

Apart from the productive consumption of M, which is transformed into L and Pm, this cycle contains the first phase M‘L, which signifies, from the standpoint of the laborer L‘M, or C‘M. In the laborer's circulation, L‘M‘C, which includes his individual consumption, only the first factor falls within the cycle of capital by means of L‘M. The second act, M‘C, does not fall within the circulation of individual capital, although it is conditioned on it. But the continuous existence of the laboring class is necessary for the capitalist class, and this requires the individual consumption of the laborer, made possible by M ‘C.
I.II.40

The act C‘‘M' requires only that C' be transformed into money, that it be sold, in order that capital-value may continue its cycles and

surplus-value be consumed by the capitalist. Of course, C' is bought only because the article is a use-value and serviceable for individual or productive consumption. But if C' continues to circulate, for instance, in the hand of the merchant who has bought the yarn, this does not interfere with the continuation of the cycle of individual capital which produced the yarn and sold it to the merchant. The entire process proceeds uninterruptedly and simultaneously with the individual consumption of the capitalist and the laborer. This point is important in a discussion of commercial crises.
I.II.41

As soon as C' has been sold for money, it may re-enter into the material elements of the labor process, and thus of the reproductive process. Whether C' is bought by the final consumer or by a merchant, does not alter the case. The quantity of commodities produced by capitalist production depends on the scale of production and on the continual necessity for expansion following from this production. It does not depend on a predestined circle of supply and demand, nor on certain wants to be supplied. Production on a large scale can have no other buyer, apart from other industrial capitalists, than the wholesale merchant. Within certain limits, the process of reproduction may take place on the same or on an increased scale, although the commodities taken out of it may not have gone into individual or productive consumption. The consumption of commodities is not included in the cycle of the capital which produced them. For

instance, as soon as the yarn has been sold, the cycle of the capital-value contained in the yarn may begin anew, regardless of what may become of the sold yarn. So long as the product is sold, everything is going its regular course from the standpoint of the capitalist producer. The cycle of his capital-value is not interrupted. And if this process is expanded‘including an increased productive consumption of the means of production‘this reproduction of capital may be accompanied by an increased individual consumption (demand) on the part of the laborers, since this individual consumption is initiated and mediated by productive consumption. Thus the production of surplus-value, and with it the individual consumption of the capitalist, may increase, the entire process of reproduction may be in a flourishing condition, and yet a large part of the commodities may have entered into consumption only apparently, while in reality they may still remain unsold in the hands of dealers, in other words, they may still be actually in the market. Now one stream of commodities follows another, and finally it becomes obvious that the previous stream had been only apparently absorbed by consumption. The commodity-capitals compete with one another for a place on the market. The succeeding ones, in order to be able to sell, do so below price. The former streams have not yet been utilized, when the payment for them is due. Their owners must declare their insolvency, or they sell at any price in order to fulfill their obligations. This sale has nothing whatever to do with the actual condition of the demand. It is merely a question of a demand for payment, of the pressing necessity of

transforming commodities into money. Then a crisis comes. It becomes noticeable, not in the direct decrease of consumptive demand, not in the demand for individual consumption, but in the decrease of exchanges of capital for capital, of the reproductive process of capital.
I.II.42

If the commodities Pm and L, into which M is transformed in the performance of its function of money-capital, in its capacity as capital-value destined for retransformation into productive capital, if, I say, those commodities are to be bought or paid at different dates, so that M‘C represents a series of successive purchases or payments, then a part of M performs the act M‘C, while another part persists in the form of money, and does not serve in the performance of simultaneous or successive acts M‘C, until the conditions of this process itself demand it. This part of M is temporarily withheld from circulation, in order to perform its function at the proper moment. This storing of M for a certain time is a function conditioned on its circulation and intended for circulation. Its existence as a fund for purchase and payment, the suspension of its movement, the condition of its interrupted circulation, are conditions in which money performs one of its functions as money-capital. I say money-capital; for in this case the money remaining temporarily at rest is itself a part of money-capital M (of M'‘m equal to M), of that part of commodity-capital which is equal to P, of that value of productive capital from

which the cycle proceeds. On the other hand, all money withdrawn from circulation has the form of a hoard. In the form of a hoard, money is thus likewise a function of money-capital, just as the function of money in M‘C as a medium of purchase or payment becomes a function of money-capital. For capital-value here exists in the form of money, the money-form is a condition of industrial capital in one of its stages, prescribed by the interrelations of processes within the cycle. At the same time it is here once more obvious, that money-capital performs no other functions than those of money within the cycle of industrial capital, and that these functions assume the significance of capital functions only by virtue of their interrelations with the other stages of this cycle.
I.II.43

The representation of M' as a relation of m to M, as a capital relation, is not so much a function of money-capital, as of commodity-capital C', which in its turn, as a relation of c to C, expresses but the result of the process of production, of the self-utilization of capital which took place in it.
I.II.44

If the movement of the process of circulation meets with obstacles, so that M must suspend its function M‘C on account of external conditions, such as the condition of the market, etc., and if it therefore remains for a shorter or longer time in its money-form, then

we have once more money in the form of a hoard which it may also assume in the simple circulation of commodities, as soon as the transition from C‘M to M‘C is interrupted by external conditions. It is an involuntary formation of a hoard. In the present case, money has the form of fallow, latent, money-capital. But we will not discuss this point any further for the present.

I.II.45

In both cases, the suspension of money-capital in the form of money is the result of an interruption of its movements, no matter whether this is advantageous or harmful, voluntary or involuntary, in accord with its functions or contrary to them.

II. Accumulation and Reproduction On An Enlarged Scale.

I.II.46

Since the proportions of the expansion of the productive process are not arbitrary, but determined by technical conditions, the produced surplus-value, though intended for capitalization, frequently does not attain a size sufficient for its function as additional capital, for its entrance into the cycle of circulating capital-value, until several cycles have been repeated so that it must be accumulated until that time. Surplus-value thus assures the rigid form of a hoard and is, then, latent capital. It is latent, because it cannot function as capital so long

as it persists in the money-form.*10 The formation of a hoard thus appears as a phenomenon included in the process of capitalist accumulation, accompanying it, but nevertheless essentially different from it. For the process of reproduction is not expanded by latent capital. On the contrary, latent money-capital is here formed, because the capitalist producer cannot at once expand the scale of his production. If he sells his surplus-product to a producer of gold or silver, or, what amounts to the same thing, to a merchant who imports additional gold or silver from foreign countries for a part of the national surplus-product, then his latent money-capital forms an increment of the national gold or silver hoard. In all other cases, the surplus-value, for instance the 78 pounds sterling, which were a circulating medium in the hand of the purchaser, have only assumed the form of a hoard in the hands of the capitalist. In other words, a different repartition of the national gold or silver hoard has taken place, that is all.
I.II.47

If the money serves in the transactions of our capitalist as a means of payment, in such a way that the commodities are to be paid for by the buyer on long or short terms, then the surplus-product intended for capitalization is not transformed into money, but into creditor's claims, into titles of ownership of a certain equivalent, which the buyer may either have in his possession, or which he may expect to possess. It does not enter into the reproductive process of the

cycle any more than money which is invested in interest-bearing papers, although it may enter into the cycles of other individual industrial capitals.
I.II.48

The entire character of capitalist production is determined by the utilization of the advanced capital-value, that is to say, in the first instance by the production of as much surplus-value as possible; in the second place, by the production of capital, in other words, by the transformation of surplus-value into capital (see vol. I, chap. XXIV). But, as we have seen in volume I, the further development makes it a necessity for every individual capitalist to accumulate, or to produce on an enlarged scale, in order to produce more and more surplus-value, and this appears as a personal motive of the capitalist for his own enrichment. The preservation of his capital is conditioned on its continuous enlargement. But we do not revert any further to our previous analysis.
I.II.49

We considered first simple reproduction, and we assumed that the entire surplus-value was spent as revenue. But in reality and under normal conditions, only a part of the surplus-value can be spent as revenue, and another part must be capitalized. And it is quite immaterial, whether a certain surplus-value, produced within a certain period, is entirely consumed or entirely capitalized. In the average

movement‘and the general formula cannot represent any other‘both cases occur. But in order not to complicate the formula, it is better to assume that the entire surplus-value is accumulated. The formula P...C‘M'‘C'...P stands for productive capital, which is reproduced on an enlarged scale and with enlarged values, and which begins its second cycle as enlarged productive capital, or, what amounts to the same, which renews its first cycle. As soon as this second cycle is begun, we have once more P as a starting point; only P is a larger productive capital than the first P was. Hence, if the second cycle begins with M' in the formula M‘M', this M' functions as M, as an advanced capital of a definite size. It is a larger money-capital than the one with which the first cycle was opened; but all relations to its growth by the capitalization of surplus-value have disappeared, as soon as it appears in the function of advanced money-capital. This origin is extinguished in its form of money-capital which begins its cycle. This also applies to P', as soon as it becomes the starting point of a new cycle.
I.II.50

If we compare P...P' with M...M', or with the first cycle, we find that they have not the same significance. M...M', taken by itself as an individual cycle, expresses only that M, money-capital, or industrial capital in its cycle as money-capital, is money generating more money, value generating more value, in other words, producing surplus-value. But in the cycle of P, the process of utilization is completed as soon

as the first stage, the process of production, is over with, and after going through the second stage (the first stage of the circulation), C‘ M', the capital-value plus surplus-value exists already as materialized money-capital, as M', which appeared as the last extreme in the first cycle. The fact that surplus-value has been produced is registered in the first considered formula P...P by c‘m‘c (see expanded formula previously given). This, in its second stage, falls outside of the circulation of capital and represents the circulation of surplus-value as revenue. In this form, where the entire movement is represented by P...P and where there is no difference in value between the two extremes, the utilization of the advanced value, or the production of surplus-value, is represented in the same way as in M...M', only the act C‘M', which appears as the last stage in M‘M', and as the second stage of the cycle, appears as the first stage of the circulation P...P.
I.II.51

In P...P', the term P' does not express the fact that surplus-value has been produced, but that the produced surplus-value has been capitalized, that capital has been accumulated, and that P' as distinguished from P consists of the original capital-value plus the value of capital accumulated by its movements.
I.II.52

M', as the closing link of M...M', and C', as it appears within all these cycles, do not express the movement, but its result, if taken by

themselves: they represent the result, in the form of money or commodities of the utilization of capital-value, and capital-value therefore appears as M plus m, or C plus c, as a relation of capital-value to its surplus-value, its offspring. But whether this result appears in the form of M' or C', it is not a function of either money-capital or commodity-capital. As special and different forms corresponding to special functions of industrial capital, money-capital can perform only money functions, and commodity-capital only commodity functions. Their difference is merely that of money and commodity. Industrial capital, in its capacity of productive capital, can likewise consist only of the same elements as those of any other process of labor which creates products: on one side objective means of production, on the other labor-power as the productive element. Just as industrial capital can exist within the process of production only in a composition which corresponds to the requirements of all production, even if it is not capitalist production so it can exist in the sphere of circulation only in the two forms corresponding to it, viz., that of a commodity or of money. Now the sum of the elements of production reveals its character of productive capital at the outside by the fact that the labor-power belongs to another from whom the capitalist purchases it, just as he purchases his means of production from others who own them, so that the process of production itself appears as a productive function of industrial capital. In the same way money and commodities appear as forms of circulation of the same industrial capital, hence their functions as those of the circulation of this capital, which either

introduce the function of productive capital or originate from it. The money function and the commodity function become at the same time functions of money-capital and commodity-capital for no other reason than that they enter into relationship with the functional forms through which industrial capital passes in the different stages of its process of circulation. It is, therefore, a mistake to attempt to derive the specific characters of money and commodities, and their specific functions as such, from their capital-character, and it is likewise a mistake to derive the qualities of productive capital from its existence in means of production.
I.II.53

As soon as M' or C' have become fixed in the relation of M plus m, or C plus c, in other words, as soon as they become parts of the relation between capital-value and its offspring surplus-value, they give expression to this relation either in the form of money or of commodities, without changing the nature of the relation itself. This relation is not due to any qualities or functions of either money or commodities as such. In both cases the characteristic quality of capital, that of being a value generating more value, is expressed only as a result. C' is always the product of the function of P, and M' is always merely a form of C' changed in the cycle of industrial capital. As soon as the realized money-capital begins its special function as money-capital anew, it ceases to express the capital-relation conveyed by the formula M' equal to M plus m. After M...M' has been

completed and M' begins the cycle anew, it no longer figures as M' but as M, even if the entire capital-value contained in M' is capitalized. The second cycle begins in our case with a money-capital of 500 pounds sterling, instead of 422 pounds in the first cycle. The money-capital, which opens the cycle, is larger by 78 pounds sterling than before; this difference exists in the comparison of one cycle with another, but it does not exist within each cycle. The 500 pounds sterling advanced as money-capital, 78 pounds of which formerly existed as surplus-value, do not play any different role than some other 500 pounds sterling by which another capitalist opens his first cycle. The increased P' opens a new cycle as P, just as P did in the simple reproduction P...P.
I.II.54

In the stage M'‘C', the increased magnitude is indicated only by C', but not by L' and PM'. Since C is the sum of L and Pm, the term C' indicates sufficiently that the sum of the L and Pm contained in it is greater than the original P. In the second place, the terms L' and PM' would be incorrect, because we know that the growth of capital implies a change in the relative proportions of the values composing it, and that, with the progressive changing of this proportion, the value of Pm increases, while that of L always decreases relatively, if not absolutely.

III. Accumulation of Money

Whether or not m, the surplus-value transformed into gold, is immediately combined with the circulating capital-value and is thus enabled to enter into the cycle together with the capital M in the magnitude of M', depends on circumstances which are independent of the mere existence of m. If m is to serve as money-capital in a second independent business, to be run by the side of the first, it is evident that it cannot be used for this purpose, unless it is of the minimum size required for it. And if it is intended to use it for the extension of the original business, the condition of the substances composing P and their relative values likewise demand a minimum magnitude for m. All the means of production employed in this business have not only a qualitative, but also a definite quantitative relation toward one another. These proportions of the substances and of their values entering into the productive capital determine the minimum magnitude required for m, in order to be capable of transformation into additional means of production and labor-power, or only into means of production as an addition to the productive capital. For instance, the owner of a spinning loom cannot increase the number of his spindles without at the same time purchasing a corresponding number of carders and preparatory looms, apart from the increased expense for cotton and wages, which such an extension of his business demands. In order to carry this out, the surplus-value

must have reached a considerable figure (one pound sterling per spindle is generally assumed for new installations). So long as m does not reach this figure, the cycle of the original capital must be repeated several times, until the sum of the successively produced surplus-values m can take part in the functions of M, in the process M'‘C'. Even mere changes of detail, for instance, in the spinning machinery, made for the purpose of making it more productive, require greater expenditures for spinning material, preparatory looms, etc. In the meantime, m is accumulated, and its accumulation is not its own function, but the result of repeated cycles of P...P. Its own function consists in persisting in the form of money, until it has received sufficient additions from the outside by means of successive cycles of utilization of capital to have acquired the minimum magnitude necessary for its active function. Only when it has reached this magnitude, can it actually serve as money-capital and eventually take part in the functions of the active money-capital M as its accumulated part. But until that time it is accumulated and exists only in the form of a hoard in a process of gradual growth. The accumulation of money, the formation of a hoard, appears here as a process which accompanies temporarily the accumulation by which industrial capital expands the scale of its productive action. This is a temporary phenomenon, for so long as the hoard remains in this condition, it does not perform the function of capital, does not take part in the process of utilization, and remains a sum of money which

grows only by virtue of the fact that other money, existing without the initiative of the hoard, is thrown into the same safe.
I.II.56

The form of a hoard is simply the form of money not in circulation. It is money interrupted in its circulation and stored up in the form of money. As for the process of forming a hoard, it is found in all systems of commodity-production, and it plays a role as an end in itself only in the undeveloped, precapitalist forms of this production. In the present case, the hoard assumes the form of money-capital, and goes through the process of forming a hoard as a temporary corollary of the accumulation of capital, merely because the money here figures as latent money-capital, and because the formation of a hoard as well as the surplus-value hoarded in the form of money represent a functionally prescribed and preliminary stage required for the transformation of surplus-value into capital actually performing its functions. It is this end which gives it the character of latent money-capital. Hence the volume, which it must have acquired before it can take part in the process of capital, is determined in each case by the values of which the productive capital is composed. But so long as it remains in the condition of a hoard, it does not perform the functions of money-capital, but is merely sterile money-capital; its functions have not been interrupted, as in a previous case, but it is as yet incapable of performing them.
I.II.57

We are here discussing the accumulation of money in its original and real form of an actual hoard of money. But it may also exist in the form of mere outstanding money, of credits granted by a capitalist who has sold C'. As concerns its other forms, where this latent money-capital exists in the meantime in the shape of money breeding more money, such as interest-bearing deposits in a bank, in drafts, or in bonds of some sort, these do not fall within the discussion at this point. Surplus-value realized in the form of money then performs special capital-functions outside of that cycle of industrial capital which originated it. In the first place, these functions have nothing to do with that cycle of industrial capital as such, in the second place they represent capital-functions which are to be distinguished from the functions of industrial capital and which are not yet developed at this stage.

IV. Reserve Funds.

I.II.58

In the case which we have just discussed, surplus-value in the form of a hoard represents accumulated funds, a money-form temporarily assumed by the accumulation of capital and to that extent a condition of this accumulation. However, such accumulated funds may also perform special services of a subordinate nature, that is to say they

may enter into the circulation-process of capital, even if this process has not assumed the form of P‘P', in other words, without an expansion of capitalist reproduction.
I.II.59

If the process C‘M' is prolonged beyond its normal size, so that commodity-capital meets with abnormal obstacles during its transformation into the money-form, or if, after the completion of this transformation, the price of the means of production into which the money-capital is to be transformed has risen above the level occupied by it in the beginning of the cycle, the hoard held as accumulated funds may be used in the place of money-capital, or of a part of such capital. In that case, the accumulated funds of money serve as reserve funds for the purpose of counterbalancing disturbances of the circulation.
I.II.60

When in use as such a reserve fund, accumulated money differs from the fund of purchase or paying media discussed in the cycle P‘P'. These media are a part of money-capital performing its functions, they are forms of existence of a part of capital-value in general going through the process of its circulation, and its different parts perform their functions successively at different times. In the continuous process of production, money-capital in reserve is always formed, obligations being incurred today which will not be paid until later, and

large quantities of commodities being sold today, while other large quantities are not to be bought until some other day. In these intervals, a part of the circulating capital exists continuously in the form of money. A reserve fund, on the other hand, is not a part of money-capital in the performance of its functions. It is rather a part of capital in a preliminary stage of its accumulation, of surplus-value not yet transformed into active capital.
I.II.61

Of course, it requires no explanation, that the capitalist, when pressed for funds, does not concern himself about the definite functions of the money in his hands. He simply employs whatever money he has for the purpose of keeping the circulation-process of his capital in motion. For instance, in our illustration, M is equal to 422 pounds sterling, M' to 500 pounds sterling. If a part of the capital of 422 pounds sterling exists in the form of money as a fund for paying or buying, it is intended that all of it should enter into circulation, conditions remaining the same, and that it is sufficient for this purpose. The reserve fund, on the other hand, is a part of the 78 pounds sterling of surplus-value. It cannot enter the circulation process of the capital of 422 pounds sterling, unless this circulation takes place under changed conditions; for it is a part of the accumulated funds, and figures here under conditions, where the scale of the reproduction has not been enlarged.
I.II.62

Accumulated money-funds represent latent money-capital, or the transformation of money into money-capital.
I.II.63

The following is the general formula for the cycle of productive capital, combining simple reproduction and reproduction on an enlarged scale:

P…C‘M'. M‘C…P (P').

I.II.64

If P equals P, then M in 2) is equal to M'‘m; if P equals P', then M in 2) is greater than M'‘m, that is to say, m has been completely or partially transformed into money-capital.
I.II.65

The cycle of productive capital is that form, under which classical political economy discusses the rotation process of industrial capital.

Notes for this chapter

10.

The term "latent" is borrowed from the idea of latent heat in physics, which has now been almost replaced by the theory of the transformation of energy. Marx therefore uses in the third part, which is of later date, another term borrowed from the idea of potential energy, viz.: "potential," or, analogous to the virtual velocities of D'Alembert, "virtual capital."‘F. E.

Part I,

Volume II Chapter III THE CIRCULATION OF COMMODITY-CAPITAL.

I.III.1

The general formula for the cycle of commodity-capital is:

C'‘M''C...P...C'.

I.III.2

C' appears not alone as the product, but also as the premise of the two previous cycles, since M‘C includes for one capital that which C'‘ M' includes for the other, at least in so far as a part of the means of production represents the commodity-product of other individual capitals going through their circulation process. In our case, for instance, coal, machinery, etc., represent the commodity-capital of the

mine-owner, of the capitalist machine-manufacturer, etc. Furthermore, we have shown in chapter I, IV, that not only the cycle P...P, but also the cycle C'...C' is assumed even in the first repetition of M...M', before this second cycle of money-capital is completed.
I.III.3

If reproduction takes place on an enlarged scale, then the final C' is greater than the initial C' and we shall then call the final one C''.
I.III.4

The difference between the third form and the first two is on the one hand, that in this case the total circulation opens the cycle with its two opposite phases, while in form I the circulation is interrupted by the process of production, and in form II the total circulation with its two complementary phases appears as a connecting link for the process of reproduction, intervening as a mediating movement between P...P. In the case of M...M', the cycle has the form M‘C...C'‘ M'=M‘C‘M. In the case of P...P it has the opposite form, namely, C'‘ M'. M‘C=C‘M‘C. In the case of C'‘C', it likewise has this last form.
I.III.5

On the other hand, when the cycles I and II are repeated, even if the final points M' and P' are at the same time the starting points of the renewed cycle, the form in which they were originally generated disappears. M'=M plus m, and P'=P plus p, begin the new cycle as M

and P. But in form III, the starting point C must be designated as C', also in the case of the renewal of the cycle on the same scale, for the following reason. As soon as M' as such opens a new cycle in the form I, it performs the functions of money-capital M, as an advance in the form of money of the capital value to be utilized. The size of the advanced money-capital, increased by the accumulation resulting from the first cycle, is greater. But whether the size of the advanced money-capital is 422 pounds sterling or 500 pounds sterling, it nevertheless appears merely as a capital-value. M' no longer exists as a utilized capital pregnant with surplus-value, for it is still to be utilized. The same is true of P...P', for P' must always perform the functions of P, of capital-value used for the generation of surplus-value, and must renew its cycle for this purpose.
I.III.6

Now the circulation of commodity-capital does not open with capital-value, but with augmented capital-value in the form of commodities. It includes from the start not only the cycle of capital-value represented by commodities, but also of surplus-value. Hence, if simple reproduction takes place in this form, C' at the starting point is equal to C' at the closing point. If a part of the surplus-value enters into the circulation of capital, C'', an enlarged C', appears at the close, but the succeeding cycle is once more opened by C'. This is merely a larger C' than that of the preceding cycle, and it begins its new cycle with a proportionately increased accumulation of capital-value, which

includes a proportionate increase of newly produced surplus-value. In every case, C' always opens the cycle as a commodity-capital which is equal to capital-value plus surplus-value.
I.III.7

C' as C does not appear in the circulation of some individual industrial capital as a form of this capital, but as a form of some other industrial capital, so far as the means of production are its products. What is M‘C (or M‘Pm) for the first capital, is C'‘M' for this second capital.
I.III.8

In the circulation act M‘C the factors L and Pm have identical relations, in so far as they are commodities in the hands of those who sell them; on the one hand the laborers who sell their labor-power, on the other hand the owners of the means of production, who sell these. For the purchaser, whose money here performs the functions of money-capital, L and Pm represent merely commodities, so long as he has not bought them, so long as they confront his money-capital in the form of commodities owned by others. Pm and L here differ only in this respect that Pm may be C', or capital, in the hands of its owner, if Pm is the commodity-form of his capital, while L is always nothing else but a commodity for the laborer, and does not become capital, until it is made a part of P in the hand of its purchaser.

I.III.9

For this reason, C' can never open any cycle as a mere commodity-form of capital-value. As commodity-capital it is always the representative of two things. From the point of view of use-value it is the product of the function of P, in the present case yarn, whose elements L and Pm, coming from the circulation, have been active in creating this product. And from the point of view of exchange-value, commodity-capital is the capital-value P plus the surplus-value m produced by the function of P.

I.III.10

It is only in the circulation of C' itself that C equal to P, and equal to the capital-value, can and must separate from that part of C' in which surplus-value is contained, from the surplus-product representing the surplus-value. It does not matter, whether these two parts can be actually separated, as in the case of yarn, or whether they cannot be separated, as in the case of a machine. They may always be separated, as soon as C' is transformed into M'.

I.III.11

If the entire commodity-product is separable into independent homogeneous parts, as is the case in our 10,000 lbs. of yarn, so that the act C'‘M' is performed by means of a number of successive sales, then capital-value in the form of commodities can perform the

functions of C and can be separated from C', before the surplus-value, or the entire value of C', has been realized.
I.III.12

In the 10,000 lbs. of yarn at 500 pounds sterling, the value of 8,440 lbs., equal to 422 pounds sterling, is separated from the surplus-value. If the capitalist sells first 8,440 lbs. at 422 pounds sterling, then these 8,440 lbs. of yarn represent C, or the capital-value, in the form of commodities. The surplus-product of 1,560 lbs. of yarn, likewise contained in C', and valued at 78 pounds sterling, does not circulate until later. The capitalist may accomplish C‘M‘C before the surplus product c‘m‘c circulates.
I.III.13

Or, if he sells 7,440 lbs. of yarn at 372 pounds sterling, and then 1,000 lbs. of yarn at 50 pounds sterling, he might replace the means of production (the constant capital c) with the first part of C and the variable capital v, the labor-power, with the second part of C, and then proceed as before.
I.III.14

But if such successive sales take place, and the conditions of the cycle permit it, the capitalist, instead of separating C' into c plus v plus s, may make such a separation also in the case of aliquot parts of C'.
I.III.15

For instance, 7,440 lbs, yarn, valued at 372 pounds sterling, representing a constant capital as parts of C', namely of 10,000 lbs. of yarn valued at 500 pounds sterling, may be separated into 5,535 lbs. of yarn valued at 276.768 pounds sterling, which replace the constant part, the value of the means of production used up in producing 7,440 lbs. of yarn; 744 lbs. of yarn valued at 37.200 pounds sterling, which replace only the variable capital; and 1,160.640 lbs. of yarn valued at 58.032 pounds sterling, which are the surplus-product and represent surplus-value. If he sells his 7,440 lbs. of yarn, he can replace the capital-value contained in them after the sale of 6,279.360 lbs. of yarn at 313.968 pounds sterling, and he can spend as his revenue the value of the surplus-product of 1,160.640 pounds, or 58.032 pounds sterling.
I.III.16

In the same way, he may separate 1,000 lbs. of yarn, valued at 50 pounds sterling, or equal to the variable capital-value, into its aliquot part and sell them successively, as follows: 744 lbs. of yarn at 37.200 pounds sterling, for the constant capital-value of 1,000 lbs. of yarn; 100 lbs. of yarn at 5 pounds sterling, for the variable capital-value; or together 844 lbs. of yarn at 42.2 pounds sterling, for replacing the capital-value contained in 1,000 lbs. of yarn; finally, 156 lbs. of yarn at 7.8 pounds sterling representing the surplus-product contained in 1,000 lbs. of yarn, which may be spent as such.

I.III.17

Finally, the capitalist may divide the remaining 1,560 lbs. of yarn, valued at 78 pounds sterling, provided he succeeds in selling them, in such a way that the sale of 1,160 lbs. of yarn, valued at 58.032 pounds sterling, replaces the value of the means of production contained in those 1,560 lbs. of yarn, and 156 lbs. of yarn, valued at 7.8 pounds sterling, replaces the variable capital-value; or a total of 1,316.640 lbs. of yarn, valued at 65.832 pounds sterling, for replacing the total capital-value; finally, the surplus-product of 243.360 lbs., valued at 12.168 pounds sterling, remains, to be spent as revenue.
I.III.18

Just as all the elements of c, v, and s, contained in the yarn, are divisible into the same component parts, so may every individual pound of yarn, valued at 1 sh., or 12 d., be divided.

c = 0.744 lbs. of yarn = 8.928 d.
v = 0.100 lbs. of yarn = 1.200 d.
s = 0.156 lbs. of yarn = 1.872 d.
c+v+s = 1.00 lb. of yarn = 12.00 d.
I.III.19

If we add the results of the three above partial sales, we obtain the same result as we should when selling the entire 10,000 lbs. at one time.

I.III.20

We have the following parts of constant capital:

In the first lot 5,535.360 lbs. of yarn at £276.768.
In the second lot 744.000 lbs. of yarn at £37.200.
In the third lot 1,160.640 lbs. of yarn at £58.032.
Total…7,440.000 lbs. of yarn at £372.000.

I.III.21

Furthermore, the following parts of variable capital:

In the first lot of 744.000 lbs. of yarn at £37.200.
In the second lot 100.000 lbs. of yarn at £5.000.
In the third lot 156,000 lbs. of yarn at £7.800.
Total…1,000.000 lbs. of yarn at £50.000.

I.III.22

Finally, the following parts of surplus-value:

In the first lot 1,160.740 lbs. of yarn at £58.032.
In the second lot 156.000 lbs. of yarn at £7.800.

In the third lot 343.360 lbs, of yarn at £12.168.
Total…1,560.000 lbs. of yarn at £78.000.

Grand Total:
Constant capital… 7,450 lbs. of yarn at £372.
Variable capital… 1,000 lbs. of yarn at £50.
Surplus-value… 1,560 lbs. of yarn at £78.
Total… 10,000 lbs. of yarn at £500.
I.III.23

C'‘M' stands in itself merely for the sale of 10,000 lbs. of yarn. These 10,000 lbs. of yarn are a commodity like all other yarn. The purchaser is interested in the price of 1 sh. per lb., or 500 pounds sterling for 10,000 lbs. If he analyzes during the negotiations the different values of which this lot is composed, he does so simply with the malignant intention of proving that it can be sold at less than 1 sh. per pound and still leave a fair profit to the seller. But the quantity purchased by him depends on his own requirements. If he is, for instance, the owner of a cloth-factory, the amount of his purchase depends on the composition of his own capital invested in this plant, not on that of the owner of the yarn from whom he buys. The conditions, in which C' has to replace on one side the capital used up in its production (or the component parts of this capital), and on the other to serve as a surplus-product for the spending of surplus-value or for the accumulation of capital, exist only in the cycle of that capital, which

exists as a commodity capital in the form of 10,000 lbs. of yarn. These conditions have nothing to do with the sale itself. In the present case we have also assumed the C' is sold at its value, so that it is only a question of its transformation from the commodity-form into that of money. Of course, it is essential for C', when performing a function in the cycle of this individual capital by which the productive capital is to be replaced, that it should be known to what extent, if at all, the price and the value vary in the sale. But this does not concern us here in the discussion of the distinctions of form.
I.III.24

In form I, or M...M', the process of production intervenes midway between the two complementary and opposite phases of the circulation of capital, and is past before the concluding phase C'‘M' begins. Money has been advanced as capital, transformed into means of production and labor power, transferred from these to the commodity-product, and this in its turn changed into money. It is a complete cycle of business, which results in money, the universal medium. The renewal of the cycle is then possible, but not necessary. M...P...M' may either be the last cycle, concluding the function of some individual capital withdrawn from business, or the first cycle of some new capital beginning its active function. The general movement is here M...M', from money to more money.
I.III.25

In form II, or P...C'‘M''C...P (P'), the entire circulation process follows after the first P and takes place before the second P; but it takes place in the opposite direction from that of form I. The first P is the productive capital, and its function is the productive process, on which the succeeding circulation process is conditioned. The concluding P, on the other hand, does not stand for the productive process; it is only the return of industrial capital to its form of productive capital. And it has that form by virtue of the last phase of circulation, in which the transformation of capital-value into L plus Pm was accomplished, those subjective and objective factors which combine to form the productive capital. The capital, whether it be P or P', is in the end once more present in a form in which it may again perform the function of productive capital, in which it must go through the productive process. The general form of the movement P...P'(P) is that of reproduction and does not indicate that capital is to be increased by new values, as does M...M'. This enables classic political economy to ignore so much easier the capitalistic form of the process of production end to pretend that production itself is the purpose of this process; just as though it were only a question of producing as much as possible, as cheaply as possible, and of exchanging the product for the greatest variety of other products, either for the renewal of the production (M‘ C), or for consumption (m‘c). It is then quite likely that the peculiarities of money and money-capital may be overlooked, for M and m appear here merely as passing media of circulation. The entire process seems so simple and natural, but natural in the sense of a

shallow rationalism. In the same way, the profit is occasionally overlooked in the commodity-capital and it is mentioned merely as a commodity when discussing the productive circulation as a whole. But as soon as the question of the values composing it comes up for discussion, it is spoken of as commodity-capital. Accumulation, of course, is seen in the same light as production.
I.III.26

In form III, or C'‘M''C...P...C', the two phases of the circulation process open the cycle, in the same order which obtains in form II, or P...P; next follows P with its function, the productive process, the same as in form I; the cycle closes with the result of the process of production, C'. While form II closes with P, the return of productive capital to its mere form, so form III closes with C', the return of commodity-capital to its form. Just as in form II the capital, in its concluding form of P, must renew its cycle by beginning with the process of production, so in this case, where the industrial capital re-appears in the form of commodity-capital, the cycle is re-opened by the circulation phase C'‘M'. Both forms of the cycle are incomplete, because they do not close with M', that is to say with capital-value retransformed into money and utilized. Both cycles must, therefore, be continued and include the reproduction. The total cycle of form III is represented by C'...C'.
I.III.27

The third form is distinguished from the two first by the fact that it is the only one in which the utilized capital-value appears as the starting point of its utilization, instead of the original value which is to be utilized. C' as a capital-relation is the starting point and has a determining influence on the entire cycle, for it includes the cycle of capital-value as well as that of surplus-value in its first phase, and the surplus-value is compelled to act partly as revenue by going through the circulation c‘m‘c, partly to perform the function of an element of capital accumulation, at least in the average of the cycles, if not in all of them.
I.III.28

In the form C'...C' the consumption of the entire commodity-product is assumed as the condition of the normal course of the cycles of capital itself. The individual consumption of the laborer and the individual consumption of the unaccumulated part of the surplus-product comprise the entire individual consumption. Hence the consumption in its totality‘individual as well as productive consumption‘are conditional factors in the cycle C'. Productive consumption, which includes the individual consumption of the laborer as a corollary, since labor-power is a continuous product of the laborer's individual consumption, within certain limits, is performed by every individual capital itself. Individual consumption, in so far as it is not required for the existence of the individual capitalist, is here only regarded as a social act, not as an act of the individual capitalist.

I.III.29

In forms I and II, the aggregate movement appears as a movement of advanced capital-value. In form III, the utilized capital, in the shape of the total commodity-product, is the starting point and has the nature of moving capital, commodity-capital. Not until the transformation into money has been accomplished, does this movement separate into movements of capital and revenue. The distribution of the total social product as well as the special distribution of the product of every individual capital for purposes of individual consumption or for reproduction, is included in the cycle of capital under this form.

I.III.30

In M...M', the possible expansion of the cycle is included, and depends on the volume of m entering into the renewed cycle.

I.III.31

In P...P, the new cycle may be started by P with the same, or even with a smaller, value, and yet may represent a reproduction on an enlarged scale, for instance in the case where certain elements of commodities become cheaper by increased productivity of labor. On the other hand, a productive capital which has increased in value may, in the opposite case, represent a reproduction on a decreased scale

with less raw material, for instance, if some elements of production have become dearer. The same is true of C'...C'.
I.III.32

In C'...C' capital in the form of commodities is the premise of production. It re-appears as a premise within this cycle in the second C. If this C has not yet been produced or reproduced, the cycle is arrested in its course. This C must be reproduced, for the greater part as C' of some other industrial capital. In this cycle, C' is found as the point of departure, of transit, and of conclusion; it is always there. It is a permanent condition of the process of reproduction.
I.III.33

C'...C' is distinguished from forms I and II by still another feature. All three cycles have this in common, that capital begins its course in the same form in which it ends the cycle, and thus re-assumes the original form whenever it renews the same cycle. The initial form M,P,C', is always the one in which capital-value (in III together with its increment of surplus-value) is advanced, in other words always the original starting form of this cycle. The concluding form M',P,C', on the other hand, is always a changed form of a functional one, which preceded the final form in the circulation and is not the original one.
I.III.34

Thus M' in I is a changed form of C', the final P in II is a changed form of M, and this transformation is accomplished in I and II by a simple transaction in the circulation of commodities, by a formal change of position of commodity and money; in III, C' is a changed form of the productive capital P. But here, in III, the transformation does not merely concern the functional form of capital, but also its magnitude as a value; and in the second place, the transformation is not the result of a formal change of position pertaining to the circulation process, but of an actual modification experienced by the use-form and value of the commodity parts of productive capital in the process of production.
I.III.35

The forms m,P,C', at the starting end, always precede every one of the cycles I, II, III. The return of these forms at the terminal end is conditioned on the series of metamorphoses in the cycle itself. C', as the terminal product of an individual cycle of industrial capital, presupposes only that form P of the industrial capital which does not belong to the circulation, M', since the terminal point of representing the changed form of C' (C'‘M'), presupposes the existence of M in the hand of the buyer, that is to say outside of the cycle M...M', but drawn into it and made it its terminal form by the sale of C'. In the same way, the final P in II presupposes the existence of L and PM(C) outside of II, but incorporated as its final form by means of M‘C. But apart from this last extreme, neither the cycle of individual money-

capital presupposes the existence of money-capital in general, nor the cycle of individual productive capital that of productive capital, in these cycles. In I, M may be the first money-capital; in II, P may be the first productive capital appearing on the historical scene. But in III,

C is presupposed twice outside of the cycle. The first time, it is assumed to exist in the cycle C'‘M'‘C. The C in this formula, so far as it consists of Pm, is a commodity in the hands of the seller; it is itself a commodity-capital, in so far as it is the product of a capitalist process of production; and even if it is not, it appears as a commodity-capital in the hands of the merchant. The second time it is assumed in c, in the formula c‘m‘c, where it must likewise be at hand in the form of a commodity, in order to be available for purchase. At any rate, whether they are commodity-capital or not, L and Pm are commodities as well as C' and maintain towards one another the relation of commodities. The same is true of the second c in the formula c‘m‘c. Inasmuch as C' is equal to C (L plus Pm), it is composed of commodities and must be replaced by equal commodities in the circulation. In the same way, the second c in c‘m‘c must be replaced by equal commodities in the circulation.
I.III.36

With the capitalist mode of production for a basis, as the prevailing mode, all commodities in the hands of the seller must be commodity-capital. And they retain this character in the hand of the merchant, or

assume it, if they did not have it before. Or they would have to be commodities, such as imported articles, which replace some original commodity-capital by bestowing upon it another form of existence.
I.III.37

The commodity-elements L and Pm, of which the productive capital is composed, do not possess the same form as modes of existence of P, which they have on the various commodity-markets where they are gathered. They are now combined, and so combined they can perform the functions of productive capital.
I.III.38

C appears as the premise of C within the cycle III, because capital in commodity-form is its starting point. The cycle is opened by the transformation of C' (in so far as it performs the functions of capital-value, whether increased by surplus-value or not) into those commodities which are its elements of production. And this transformation comprises the entire process of circulation, C‘M‘C (equal to L plus Pm), and is its result. C here stands at both extremes, but the second extreme, which receives its form C by means of M‘C from the commodity-market on the outside, is not the last extreme of the cycle, but only of its two first stage comprising the process of circulation. Its result is P, which then performs its function, the process of production. It is only as the result of this process, not as that of the circulation, that C' appears as the terminal point of the

cycle and in the same form as the starting point, C'. On the other hand, in M...M' and P...P, the final extremes M' and P are the immediate results of the process of circulation. In these instances, it is only M' and P which are supposed to exist at the end in the hands of another. So far as the process of circulation takes place between the extremes, neither M in the hands of another as money, nor P as the productive process of another, are the premises of these cycles. But C'...C' requires the existence of C (equal to L plus Pm) as commodities in the hands of others who are their owners. These commodities are drawn into the cycle by the introductory process of circulation and transformed into productive capital, and as a result of the functions of this capital, C' once more appears at the end of the cycle.
I.III.39

But just because the cycle C'...C' presupposes for its realization the existence of some other industrial capital in the form of C (equal to L plus Pm)‘and Pm comprises various other capitals, in our case machinery, coal, oil etc.,‘it demands of itself that it be considered not merely as the general form of the cycle, that is to say as a social form common to every industrial capital (except when it is first invested). It is not merely a common mobile form of all industrial capitals, but also the sum of all industrial capitals in action. It is a movement of the aggregate capital of the capitalist class, in which every individual capital appears only as a part whose movements

intermingle with those of the others and are conditioned on them. For instance, if we regard the aggregate of commodities annually produced in a certain country, and analyze the movements by which a part of this aggregate product replaces the productive capital in all individual businesses, while another part enters into the individual consumption of the various classes, then we consider C'...C' as the formula indicating the movements of social capital as well as of the surplus-value, or surplus-product, generated by it. The fact that the social capital is equal to the sum of the individual capitals (including the stocks and state capital, so far as governments employ productive wage-labor in mining, railroading, etc., and perform the function of capitalists), and that the aggregate movement of social capital is equal to the algebraic sum of the movements of individual capitals, does not militate against the possibility that this movement, seen as the movement of some individual capital, may present other phenomena than the same movement studied as a part of the aggregate movement of social capital. In the latter case, when studied in connection with all its parts, the movement simultaneously solves problems, the solution of which does not follow from the study of the cycles of some individual capital, but must be taken for granted. I.III.40

C'...C' is the only cycle, in which the originally advanced capital-value constitutes only a part of the value opening the movement at one extreme, and in which the movement thus reveals itself at the outset

as the total movement of the industrial capital. It includes that part of the product which replaces the productive capital as well as that part which creates a surplus-product and which is on an average either spent as revenue or employed as an element of accumulation. In so far as the expenditure of surplus-value in the form of revenue is included in this cycle, the individual consumption is likewise included. The latter is furthermore included for the reason, that the starting point C, commodity, exists in the form of some article of use; but every article produced by capitalist methods is a commodity-capital, no matter whether its use-form destines it for productive or for individual consumption, or for both. M...M' indicates only the quality of value, the utilization of the advanced capital-value for the purposes of the entire process; P...P (P') indicates the process of production of capital in the form of a process of reproduction with a productive capital of the same or of increased value (accumulation); C'...C', while it indicates at the outset that it is a part of the capitalist production of commodities, comprises productive and individual consumption from the start, and productive consumption with its implied generation of more value appears only as one branch of its movement. Finally, since C' may have a use-value which cannot enter any more into any process of production, it follows as a matter of course, that the different elements of value of C' expressed by parts of the product must occupy a different position, according to whether C'...C' is regarded as the formula for the movement of the total social capital, or for the independent movement of some individual industrial capital. All these

peculiarities point to the fact that this cycle implies more than the mere cycle of some individual capital.
I.III.41

In the formula C'...C', the movement of the commodity-capital, that is to say of the total product created by capitalist methods, appears simultaneously as the premise of the independent cycle of individual capital and as its effect. If this formula is grasped in its peculiarities, then it is no longer sufficient to be content with the knowledge that the metamorphoses C'‘M' and M‘C are on the one hand functionally defined sections in the metamorphoses of capital, on the other links in the general circulation of commodities. It becomes necessary to follow the ramifications of the metamorphoses of one industrial capital among those of other individual capitals and with that part of the total product which is intended for individual consumption. In the analysis of an individual industrial capital, we therefore base our studies mainly on the two first formulas.
I.III.42

The cycle C'...C' appears as the movement of an individual and independent capital in the case of agriculture, where calculations are made from crop to crop. In figure II, the sowing is the starting point, in figure III the harvest, or, to speak with the physiocrats, figure II starts out with the avances, and figure III with the reprises. The movement of capital-value in III appears from the outset only as a

part of the movement of the general mass of products, while in I and II the movement of C' is only a part of the movement of some individual capital.
I.III.43

In figure III, the commodities on the market are the continuous premise of the processes of production and reproduction. If this formula is regarded as fixed, all elements of the process of production seem to originate in the circulation of commodities and to consist only of commodities. This one-sided conception overlooks those elements of the processes of production, which are independent of the commodity-elements.
I.III.44

Since C'...C' has for its starting point the total product (total value), it follows that (making exception of foreign trade) reproduction on an enlarged scale, productivity remaining otherwise the same, can take place only when the part of the surplus-product to be capitalized already contains the material elements of the additional productive capital; so that a surplus-product is at once produced in that form which enables it to perform the functions of additional capital, so far as the production of one year can serve as the basis of next year's production, or in so far as this can take place simultaneously with the simple process of reproduction in the same year. Increased productivity can increase only the substance of capital, but not its

value; of course, it creates additional material for the generation of more value.

I.III.45

C'...C' is the basis of Quesnay's Tableau Economique, and it shows great discrimination on his part that he selected this form instead of P...P as opposed to M...M' (which is the isolated formula retained by the mercantilists).

Part I,

Volume II Chapter IV THE THREE DIAGRAMS OF THE PROCESS OF CIRCULATION.

I.IV.1

The three diagrams may be formulated in the following manner, using the sign Tc for "total process of circulation":

I. M‘C...P...C'‘M'
II.P...Tc...P
III.Tc...P (C')

I.IV.2

If we take all three diagrams together, all premises of the process appear as its effects, as premises produced by itself. Every element appears as a point of departure, transit, and return to the starting point. The total process appears as the unity of the processes of production and circulation. The process of production mediates the process of circulation, and vice versa.
I.IV.3

All three cycles have the following point in common: The creation of more value as the compelling motive. Diagram I expresses this by its form. Diagram II begins with P, the process of creating surplus-values. Diagram III begins the cycle with the utilized value and closes with renewed utilized value, even if the movement is repeated on the same scale.
I.IV.4

So far as C‘M means M‘C from the point of view of the buyer, and M ‘C means C‘M from the point of view of the seller, the circulation of capital presents only the features of the ordinary metamorphosis of commodities, subject to the laws relative to the amount of money in circulation, as analyzed in volume I, chap. III, 2. But if we do not cling to this formal aspect, but rather consider the actual connection of the metamorphoses of the various individual capitals, in other words, if we study the interrelation of the cycles of individual capitals as partial movements of the process of reproduction of the total social

capital, them the mere change of form between money and commodities does not explain matters.
I.IV.5

In a continuously revolving circle, every point is simultaneously a point of departure and point of return. If we interrupt the rotation, not every point of departure is a point of return. We have seen, for instance, that not only does every individual cycle imply the existence of the others, but also that the repetition of one cycle in a certain form necessitates the rotation of this cycle through its other forms. The entire difference thus assumes a formal aspect, it appears as a mere subjective difference made for the convenience of the observer.
I.IV.6

In so far as every one of these cycles is studied as a special form of movement through which various individual industrial capitals are passing, their differences have but an individual nature. But in reality every individual industrial capital is contained simultaneously in all three cycles. These three cycles, the forms of reproduction assumed by the three modes of capital, rotate continuously side by side. For instance, one part of capital value which now performs the function of commodity-capital, is transformed into money-capital, but at the same time another part leaves the process of production and enters the circulation as a new commodity-capital. The cycle C'...C' is thus continuously rotating, and so are the two other forms. The

reproduction of capital in each one of its forms and stages is just as continuous as the metamorphoses of these forms and their successive transition through the three stages. The entire circulation is thus actually a unit with these three forms.
I.IV.7

We assumed in our analysis that the entire volume of capital-value acts either as money-capital, productive capital, or commodity-capital. For instance, we had those 422 pounds sterling first in the role of money-capital, then we transformed them entirely into productive capital, and finally into commodity-capital, into yarn valued at 500 pounds sterling and containing 78 pounds sterling of surplus-value. Here the various stages are so many interruptions. So long as, for instance, those 422 pounds sterling retain the form of money, that is to say until the purchases M‘C (L plus Pm) have been made, the entire capital exists only in the form of money-capital and performs its functions. But as soon as it is transformed into productive capital, it performs neither the functions of money-capital nor of commodity-capital. Its entire process of circulation is interrupted, just as on the other hand its entire process of production is interrupted, as soon as it performs any functions in one of its two circulation stages, either as M or as C. From this point of view, the cycle P...P would not only present a periodical renewal of the productive capital, but also the interruption of its function, the process of production, up to the time when the process of circulation is completed. Instead of proceeding

continuously, production took place in jumps and was renewed only in periods of uncertain duration, according to whether the two stages of the process of circulation were completed fast or slowly. This would apply, for instance, to a Chinese artisan, who works only for private customers and whose process of production is interrupted, until he receives a new order.
I.IV.8

This is true of every individual part of capital in process of circulation, and all parts of capital pass through this circulation in succession. For instance, the 10,000 lbs, of yarn are the weekly product of some spinner. These 10,000 lbs. of yarn leave the sphere of production in their entirety and enter the sphere of circulation. The capital-value contained in them must all be converted into money-capital, and so long as it retains the form of money-capital, it cannot return into the process of production. It must first go into circulation and be reconverted into the elements of productive capital, L plus Pm. The process of rotation of capital is a succession of interruptions, leaving one stage and entering the next, discarding one form and assuming another. Every one of these stages not only cause the next, but also excludes it.
I.IV.9

But continuity is the characteristic mark of capitalist production, conditioned on its technical basis, although not absolutely attainable.

Let us see, then, what passes in reality. While the 10,000 lbs. of yarn appear on the market as commodity-capital and are transformed into money (regardless of whether it is a paying, purchasing, or calculating medium), new cotton, coal, etc., take the place of the yarn in the process of production, having been reconverted from the form of money and commodities into that of productive capital and performing its functions. At the time when these 10,000 lbs. of yarn are converted into money, the preceding 10,000 lbs. are going through the second stage of circulation and are reconverted from money into the elements of productive capital. All parts of capital pass successively through the process of rotation and are simultaneously in its different stages. The industrial capital thus exists simultaneously in all the successive stages of its rotation and in the various forms corresponding to its functions. That part of industrial capital, which is for the first time converted from commodity-capital into money, begins the cycle C'...C', while industrial capital as a rotating body of aggregates, has passed through it. One hand advances money, the other receives it. The inauguration of the cycle M...M' at one place coincides with its return to the starting point of another. The same is true of productive capital.
I.IV.10

The actual rotation of industrial capital in its continuity is therefore not alone the unity of the processes of production and circulation, but also the unity of its three cycles. But it can be such a unity only, if every

individual part of capital can go successively through the various stages of the rotation, pass from one phase and from one functional form to another, so that the industrial capital, being the aggregate of all these parts, is found simultaneously in its various phases and functions and describes all three cycle at the same time. The succession of these parts is conditioned on their simultaneous existence side by side, that is to say, on the division of capital. In a systematized manufacture, the product is as much ubiquitous in the various stages of its process of formation, as it is in the transition from one phase of production to another. As the individual industrial capital has a definite volume which does not merely depend on the means of the capitalist and which has a minimum magnitude for every branch of production, it follows that its division must proceed according to definite proportions. The magnitude of the available capital determines the volume of the process of production, and this, again, determines the size of the commodity-capital and money-capital which perform their functions simultaneously with the process of production. The simultaneous functions, which enable the production to proceed continuously, are only due to the rotation of the various parts of capital which pass successively through their different stages. The simultaneousness is merely the result of the succession. For if the rotation of one phase, for instance of C‘M', is interrupted for one of the parts of capital, if the commodity cannot be sold, then the cycle of this part is broken and the reproduction of its elements of production cannot take place; the succeeding parts, which come out of

the process of production in the shape of C', find the conversion of their function blocked by their predecessors. If this is continued for some time, production is restricted and the entire process arrested. Every stop of the succession carries disorder into the simultaneousness of the cycles, every obstruction of one stage causes more or less obstruction in the entire rotation, not only of the obstructed part of capital, but of the total individual capital.
I.IV.11

The next form, in which the process presents itself, is that of a succession of phases, so that the transition of capital into a new phase is conditioned on its departure from another. Every special cycle has therefore one of the functional forms of capital for its point of departure or return. On the other hand, the aggregate process is indeed the unity of its three cycles, which are the different forms in which the continuity of the process expresses itself: The total rotation appears as its own specific cycle to every functional form of capital, and every one of these cycles contributes to the continuity of the process. The rotation of one functional form requires that of the others. This is the inevitable requirement for the aggregate process of production, especially for the social capital, that it is at the same time a process of reproduction, and thus a rotation of each one of its elements. Different aliquot parts of capital pass successively through the various stages and functional forms. By this means, every functional form passes simultaneously with the others through its own

cycles, although other parts of capital are continuously presented by each form. One part of capital, continually changing, continually reproduced, exists as a commodity-capital which is converted into money; another as money-capital converted into productive capital; and a third as productive capital converted into commodity-capital. The continuous existence of all three forms is brought about by the rotation of the aggregate cycle through these three phases.
I.IV.12

Capital as a whole, then, exists simultaneously side by side in its different phases. But every part passes continuously and successively from one phase and functional from into the next one and performs a function in all of them. Its forms are fluid and their simultaneousness is brought about by their succession. Every form follows and precedes another, so that the return of one capital part to a certain form is conditioned on the return of another part to some other form. Every part describes continuously its own cycle, but it is always another part which assumes a certain form, and these special cycles are simultaneous and successive parts of the aggregate rotation.
I.IV.13

The continuity of the aggregate process is realized only by the unity of the three cycles, and would be impossible with the above-mentioned interruptions. The social capital always has this continuity and its process always rests on the unity of the three cycles.

I.IV.14

The continuity of the reproduction is more or less interrupted so far as the individual capitals are concerned. In the first place, the masses of value are frequently distributed at various periods and in unequal portions over the various stages and functional forms. In the second place, these portions may be differently distributed, according to the character of the commodity, which is to be produced. In the third place, the continuity, may be more or less interrupted in those branches of production, which are dependent on the seasons, either on account of natural causes, such as agriculture, fishing, etc., or on account of conventional circumstance such as the so-called season-work. The process proceeds most regularly and uniformly in the factories and in mining. But this difference of the various branches of production does not cause any difference in the general forms of the process of rotation.

I.IV.15

Capital, as a value creating more value, is not merely conditioned on class-relations, on a definite social system resting on the existence of labor in the form of wage-labor. It is also a movement, a rotation through various stages, comprising three different cycles. Therefore it can be understood only as a thing in motion, not as a thing at rest. Those who look upon the self-development of value as a mere abstraction forget that the movement of industrial capital is the

realization of this abstraction. Value here passes through various forms in which it maintains itself and at the same time increases its value. As we are here concerned in the form of this movement, we shall not take into consideration the revolutions, which capital-value may undergo during its rotation. But it is clear that capitalist production can only exist and endure, in spite of the revolutions of capital-value, so long as this value creates more value, that is to say, so long as it goes through its cycles as a self-developing value, or so long as the revolutions in value can be overcome and balanced in some way. The movements of capital appear as the actions of some individual industrial capitalist who performs the functions of a buyer of labor-power, a seller of commodities, and an owner of productive capital, and who brings about the process of rotation by his activity. If social capital-value experiences a revolution in value, it may happen, that the capital of the individual capitalist succumbs and fails, because it cannot adapt itself to the conditions of this conversion of values. To the extent that such revolutions in value become acute and frequent, the automatic nature of self-developing value makes itself felt with the force of elementary powers against the foresight and calculations of the individual capitalist, the course of normal production becomes subject to abnormal speculation, and the existence of individual capitals is endangered. These periodical revolutions in value, therefore, prove that which they are alleged to refute, namely, the independent nature of value in the form of capital and its increasing independence in the course of its development.

I.IV.16

This succession of the metamorphoses of rotating capital includes the continuous comparison of the changes of value brought about by rotation with the original magnitude of capital. When the growing independence of value as compared to the power of creating value, of labor-power, has been inaugurated by the act M‘L (purchase of labor-power) and is realized during the process of production as an exploitation of labor-power, this rise of independence on the part of value does not re-appear in that cycle, in which money, commodities, and elements of production are merely passing forms of rotating capital value, and in which the former magnitude of value compares itself to the present changed value of capital.

I.IV.17

"Value," says Bailey, in opposition to the idea of the growing independence of value characteristic of capitalist production, which he regards as an illusion of certain economists, "value is a relation between contemporary commodities, because such only admit of being exchanged with each other." This criticism is directed against the comparison of commodity-values of different periods of time, which amounts to the comparison of the expenditure of productive labor required for the manufacture of equal commodities at different periods, once that the value of money for every period has been fixed. His opposition is due to his general misunderstanding, for he thinks that

exchange-value is value itself, that the form of value is identical with the volume of value; so that values of commodities cannot be compared, so long as they do not perform active service as exchange value and are not actually exchanged for each other. He has not the least inkling of the fact that value performs only the functions of capital, in so far as it remains identical with itself and is compared with itself in those different phases of its rotation, which are not at all contemporary, but succeed one another.
I.IV.18

In order to study the formula of this rotation in its purity, it is not sufficient to assume that the commodities are sold at their value, but that this takes place under conditions which are otherwise equal. Take, for instance, the cycle P...P and make abstraction of all technical revolutions within the process of production, by which the productive capital of a certain individual capitalist might be depreciated; make abstraction furthermore of all reactions, which a change in the elements of value of productive capital might cause in the value of the existing commodity-capital, which might be increased or lowered, if a stock of it were kept on hand. Take it also, that C', or 10,000 lbs. of yarn, have been sold at their value of 500 pounds sterling; 8,440 lbs., equal to 422 pounds sterling, reproduce the capital-value contained in C'. But if the prices of cotton, coal, etc., have increased (we do not consider mere fluctuations in price), these 422 pounds sterling may not suffice for the full reproduction of the

elements of productive capital; in that case, additional money-capital is required and money-value is tied up. The opposite takes place, if those prices fall, and money-capital is set free. The process takes a normal course only so long as the values remain constant; it proceeds practically normal, so long as the disturbances during the repetition of the process balance one another. But to the extent that these disturbances increase in volume, the industrial capitalist must have at his disposal a greater money-capital, in order to tide himself over the period of compensation; and as the scale of each individual process of production and thus the minimum size of the capital to be advanced increase in the process of capitalist production, we have here another circumstance to add to those others which transform the functions of the industrial capitalist more and more into a monopoly of great money-capitalists, who may be individuals or associations.
I.IV.19

We remark incidentally that a difference in the form of M‘M' on one side, and of P...P and C'...C' on the other appears, if a change in the value of the elements of production occurs.
I.IV.20

In the cycle M...M', the formula of newly invested capital, which for the first time appears in the role of money-capital, a fall in the value of elements of production, such as raw materials, auxiliary materials, etc., will require a smaller investment of money-capital than would

have been necessary before this fall for the purpose of starting a business of a definite size, because the scale of the process of production depends on the mass and volume of the means of production (provided the productivity remains unchanged), which a given quantity of labor-power can assimilate; but it does not depend on the value of these means of production nor on that of the labor-power (the latter has an influence only on the creation of more value). Take the opposite case. If the value of the elements of production of certain commodities is increased, which are required as elements of a certain productive capital, then more money-capital is required for the establishment of a business of definite proportions. In both cases it is only the quantity of the money-capital required for investment which is affected. In the former case, money-capital is set free, in the latter it is tied up, provided the advent of new industrial capitals proceeds normally in a given branch of production.
I.IV.21

The cycles P...P and C'...C' assume the character of M...M' only to the extent that the movement of P and C' is at the same time accumulation, so that additional m, money, is converted into money-capital. Apart from this case, they are differently affected than M...M' by a change of value of the elements of production; here, too, we do not take into consideration the reaction of such changes in value on those parts of capitals which are engaged in the process of production. It is not the original investment, which is here directly

affected, not a capital engaged in its first rotation, but one in a process of reproduction; in other words, C'...C, the reconversion of commodity-capital into its elements of production, so far as they are composed of commodities. In a reduction of value (or price), three cases are possible: The process of reproduction is continued on the same scale; in that case a part of the available money-capital is set free and money-capital is accumulated, although no actual accumulation (production on an enlarged scale), or the transformation of m (surplus-value) into funds for accumulation initiating and accompanying it, has previously taken place. Or, the process of reproduction is renewed on a more enlarged scale than would have been ordinarily the case, provided the technical proportions admit it. Or, finally, a larger stock of raw materials, etc., is laid in.
I.IV.22

The opposite takes place if the value of the elements of reproduction of a commodity-capital increases. In that case, reproduction does not take place on its normal scale (work is done in a shorter time, for instance); or additional money-capital must be employed in order to maintain the old scale (money-capital is tied up); or the money-fund of the accumulation, if available, is entirely or partially employed for the enlargement of the process of reproduction to its old scale. This is also tying up money-capital, only the additional money-capital does not come from the outside, from the money-market, but out of the pockets of the industrial capitalist himself.

However, there may be modifying circumstances in P...P and C'...C'. If our cotton spinner has a large stock of cotton (a large proportion of his productive capital in the form of a stock of cotton), a part of his productive capital is depreciated by a fall in the price of cotton; but if this price has risen, this part of his productive capital is enhanced in value. On the other hand, if he had tied up a large part of his capital in the form of commodity-capital, for instance in cotton yarn, a part of his commodity capital or for that matter of any of his rotating capital, is depreciated by a fall in the price of cotton, or enhanced by a rise in that price. Finally take the process C'‘M‘C If C'‘M, the realization on the commodity-capital, has taken place before a change in the value of the elements of C, then capital is affected only in the way indicated in the first case, that is to say, in the second act of circulation, M‘C but if such a change has occurred before the realization of C'‘M, then, other conditions remaining equal, a fall in the price of the cotton causes a corresponding fall in the price of yarn, and a rise in the price of cotton a rise in the price of yarn. The effect on the various individual capitals in the same branch of production may differ widely according to the circumstances in which they find themselves. Money-capital may also be set free or tied up by differences in the duration of the process of circulation, in other words, by the pace of the circulation. But this belongs in the discussion of the periods of turn-over. At this point, we are only

interested in the real difference arising from changes of values in the elements of productive capital between M...M' and the other two cycles of the process of rotation.
I.IV.24

In the section of circulation indicated by M‘C at a period of developed and prevailing capitalist modes of production, a large portion of the commodities composing Pm, means of production, will be rotating commodity-capital of some one else. From the standpoint of the seller, therefore, the transaction is C'‘M', the transformation of commodity-capital into money-capital. But this does not apply absolutely. In the opposite case, in those sections of its process of rotation, where industrial capital performs either the functions of money or of commodities, the cycle of industrial capital, whether as money-capital or as commodity-capital, crosses the circulation of commodities of the most varied social modes of production, so far as they produce commodities. No matter whether a commodity is the product of slavery, of peasants (Chinese, Indian ryots), of communes (Dutch East Indies), or of state enterprise (such as existed in former epochs of Russian history on the basis of serfdom), or of half savage hunting tribes, etc., commodities and money of such modes of production, when coming in contact with commodities and money representing industrial capital, enter as much into its rotation as into that of surplus-values embodied in the commodity-capital, provided the surplus-value is spent as revenue. They enter into both of the cycles

of circulation of commodity-capital. The character of the process of production from which they emanate is immaterial. They perform the function of commodities on the market, and enter into the cycles of industrial capital as well as into those of the surplus-value carried by it. It is the universal character of the commodities, the world character of the market, which distinguishes the process of rotation of the industrial capital. What is true of foreign commodities, is also true of foreign money. Just as commodity-capital has only the character of commodities in contact with foreign money, so this money has only the character of money in contact with commodity-capital. Money here performs the functions of world-money.
I.IV.25

However, two points must be noted here.
I.IV.26

First. As soon as the transaction M‘Pm is completed, the commodities (Pm) cease to be such and become one of the modes of existence of industrial capital in its function of productive capital. Henceforth their origin is obliterated. They exist only as forms of industrial capital and are embodied in it. But it still remains necessary to reproduce them, if their places are to be filled, and to this extent the capitalist mode of production is conditioned on other modes of production outside of its own stage of development. But it is the tendency of capitalist production to transform all production as much as possible into a

production of commodities. The mainspring, by which this is accomplished, is the implication of other modes of production into the circulation process of capitalist production. And developed commodity-production is capitalist production. The intervention of industrial capital promotes this transformation everywhere, and simultaneously with it also the transformation of all direct producers into wage laborers. I.IV.27

Second. The commodities entering into the process of circulation (including the means of existence necessary for the reproduction of the labor-power of the laborer, who receives variable capital in the form of wages), regardless of their origin and of the social form of the productive process by which they were created, entertain the relation of commodity-capital, in the form of merchandise or merchant's capital, toward industrial capital. Merchant's capital, by its very nature, includes commodities of all modes of production. I.IV.28

Capitalist production does not only imply production on a large scale, but also necessarily sale on a large scale, in other words, sale to the dealer, not to the individual consumer. Of course, so far as a consumer is himself a productive consumer, an industrial capitalist, whose industrial capital produces means of production for some other branch of industry, a direct sale of one industrial capitalist's product to many other capitalists takes place (orders, etc). To this extent, every

industrial capitalist is a direct seller and his own dealer, also, when he sells to the merchant.
I.IV.29

Trading in commodities as a function of merchant's capital is the premise of capitalist production and develops more and more in the course of development of this mode of production. Therefore we use it occasionally for the illustration of various aspects of the process of capitalist circulation; but in the general analysis of this process, we assume that commodities are sold directly without the intervention of the merchant, because this intervention obscures various points of the movement.
I.IV.30

See, for instance, Sismondi, who presents the matter somewhat naively, in the following words: "Commerce employs considerable capital, which at first sight does not seem to be a part of that capital whose movements we have just described. The value of the cloth in the stores of the cloth-merchant seems at first to be entirely foreign to that part of the annual production which the rich give to the poor' as wages in order to make them work. However, this capital has simply replaced the other of which we have spoken. For the purpose of clearly understanding the progress of wealth, we have begun with its creation and followed its movements to their conclusion. We have then seen that the capital employed in manufacture, for instance in

the manufacture of cloth, was always the same; and when it was exchanged for the income of the consumer, it was merely divided into two part; one of them serving as revenue for the capitalist in the form of the product, the other serving as revenue to the laborers in the form the wages while they were manufacturing new cloth. I.IV.31

But it was soon found that it would be to the advantage of all to replace the different parts of this capital one by another and, if 10,000 dollars were sufficient for the entire circulation between the manufacturer and the consumer, to divide them equally between the manufacturer, the wholesale dealer, and the retail merchant. The first then did the same work with only one-third of this capital which he had formerly done with the entire capital, because, as soon as his work of manufacturing was completed, he found that the merchant bought from him much more readily than he could have found the consumer. On the other hand, the capital of the wholesale dealer was much sooner replaced by that of the retail merchant.... The difference between the sums advanced for wages and the purchase price paid by the last consumer was considered the profit of those capitals. It was divided between the manufacturer, the wholesale dealer, and the retail merchant, from the moment that they had divided their functions, and the work accomplished was the same, although it had required three persons and three parts of capital instead of one (Nouveaux Principes, I, pages 159, 160). All the merchants contributed

indirectly to production; for having consumption for its object, production cannot be regarded as completed, until the product is placed into the reach of the consumer (Ibidem, page 157)."
I.IV.32

We operate in the discussion of the general forms of the rotation, in short in the entire second volume, with money as metallic money, to the exclusion of symbolic money, of mere tokens of value, which are the specialties of certain states, and of credit-money, which is not yet developed. In the first place, this is the historical order; credit-money plays only a very minor role, or none at all, during the first epoch of capitalist production. In the second place, the necessity of this order is demonstrated theoretically by the fact, that everything which Tooke and others have hitherto produced of a critical nature in regard to the circulation of credit-money was compelled to hard back to the question, what would be the aspect of the matter if nothing but metal-money were in circulation. But it must not be forgotten, that metal-money may serve as a purchase medium and as a paying medium. For the sake of simplicity, we consider it in this second volume generally only in its first functional form.
I.IV.33

The process of circulation of industrial capital, which is only a part of its individual process of rotation, is determined by the general laws outlined in volume I, chapter III, in so far as it is a series of

transactions within the general circulation of commodities. The same mass of money, for instance 500 pounds sterling, starts successively so many more industrial capitals or eventually individual capitals in the form of commodity-capitals) in circulation, the greater the velocity of rotation of money is, and the more rapidly therefore every individual capital passes through the metamorphoses of commodities or money. One and the same volume of capital-value therefore requires so much less money for its circulation, the more this money performs the functions of a paying medium; the more, for instance, in the reproduction of some commodity-capital by its corresponding means of production, nothing but balances have to be squared; and the shorter the time of the payments is, for instance in paying wages. On the other hand, assuming that the velocity of the circulation and all other conditions remain the same, the volume of money required for the circulation of money-capital is determined by the sum of the prices of commodities (price multiplied by the volume of commodities), or, if the volume and value of the commodities are given, by the value of money itself.
I.IV.34

But the laws of the general circulation of commodities apply only to the extent that the process of circulation of capital consists of a series of simple transactions in circulation; they do not apply to the extent that such transactions are definite functional sections in the rotation of individual industrial capitals.

I.IV.35

In order to make this plain, it is best to study the process of circulation in its uninterrupted and connected form, such as it appears in the following two formulas:

equation

I.IV.36

As a series of transaction, in circulation, the process of circulation, whether in the form of C‘M‘C or of M‘C‘M, represents merely the two opposite lines of metamorphoses of commodities, and every individual metamorphosis in its turn includes its opposite on the part of the commodity or money in the hands of another.
I.IV.37

C‘M on the part of the owner of some commodity means M‘C on the part of its buyer; the first metamorphosis of the commodity in C‘M is the second metamorphosis of the commodity appearing in the form of M; the opposite applies to M‘C. The statements concerning the intermingling of the metamorphosis of a certain commodity in one stage with that of another in another stage apply to the circulation of capital to the extent that the capitalist performs the functions of a buyer and seller of commodities, so that his capital in the form of

money meets the commodities of another, or in the form of commodities the money of another. But this intermingling is not identical with the intermingling of the metamorphoses of capitals. I.IV.38

In the first place, M‘C(Pm), as we have seen, may represent an intermingling of the metamorphoses of different individual capitals. For instance, the commodity-capital of the cotton-spinner, yarn, is partly replaced by coal. One part of his capital is in the form of money and is transformed into commodities, while the capital of the capitalist producer of coal exists in the form of commodities and is therefore transformed into money; the same transaction of circulation in this case represents opposite metamorphoses of two industrial capitals in different departments of production, the series of metamorphoses of these capitals intermingles in it. But we have also seen, that the Pm into which M is transformed need not be commodity-capital in the strictest sense, that is to say need not be a functional form of industrial capital, need not be produced by a capitalist. It is always a question of M‘C on one side, and C‘M on the other, but not always of intermingling metamorphoses of capitals. Furthermore M‘L, the purchase of labor-power, never intermingles with any metamorphoses of capital, for labor-power, though a commodity from the point of view of the laborer, does not become capital until it is sold to the capitalist. On the other hand, in the process C'‘M', it is not necessary that M' should represent transformed commodity-capital; it may be the

money-equivalent of labor-power (wages), or of the product of some independent laborer, some slave, serf, or some commune.
I.IV.39

In the second place, a definite functional role played by every metamorphosis of some individual capital within the process of circulation, need not represent a corresponding opposite metamorphosis in the rotation of the other capital, provided we assume that the entire production of the world-market is carried on capitalistically. For instance, in the cycle P...P, the M' which pays for C' may be merely the money-form of the surplus-value of the buyer, in case that the commodity is an article for consumption; or, in M'‘C' where accumulated capital is concerned, it may simply replace the advanced capital of the seller of Pm, or it may not return into the rotation of his capital at all by being side-tracked into expenditures as revenue.
I.IV.40

This shows that the manner in which the different component parts of the aggregate social capital, of which individual capitals are merely components performing independent functions, mutually replace one another in the process of circulation (in regard to capital as well as surplus-value), is not apparent from the simple intermingling of the metamorphoses in the circulation of commodities. Such intermingling occurs in the transactions of capital circulation as it does in all other

circulation of commodities, but it requires a different method of analysis. Hitherto nothing but general phrases have been employed by economists for his purpose, and if we test those phrases, they contain nothing but indefinite ideas borrowed from the intermingling of metamorphoses common to all circulations of commodities.

I.IV.41

One of the most obvious peculiarities of the process of rotation of industrial capital, and therefore of capitalist production, is the fact that on the one side, the component elements of productive capital are derived from the commodity-market, are continually renewed out of it, and are sold as commodities; that, on the other side, the product of the labor-process comes forth from it as a commodity and must be continually sold over and over as a commodity. Compare, for instance, a modern tenant of Lower Scotland with an old-fashioned small farmer on the continent. The former sells his entire product and has therefore to reproduce all its elements, even his seeds, by means of the market; the latter consumes the greater part of his product directly, buys and sells as little as possible, fashions tools, clothing, etc., so far as possible himself.

I.IV.42

Such comparisons have led to the classification of production into natural economy, the money-system, and the credit-system, as being

the three characteristic stages of economy in the development of social production.
I.IV.43

But in the first place, these three forms do not represent any equivalent phases of development. The so-called credit-system is itself merely a modification of the money-system, so far as both terms express transactions between the producers themselves. In the developed capitalist production, the money-system appears only as the basis of the credit-system. The money-system and credit-system thus correspond only to different stages in the development of capitalist production, but they are by no means independent modes of economy as compared to natural economy. With the same justification, one might place the various forms of natural economy as equivalents by the side of those two systems.
I.IV.44

In the second place, it is not the process of production itself which is emphasized as the distinguishing mark of the two systems of that classification, the money-system, the credit-system, but rather the mode of transaction between the various producers under those systems. Then the same should apply to the natural economy, which should in that case be classified as the exchange-system. A completely rounded system of natural economy, such as the state of the Inkas in Peru, would not fall under any of these classifications.

I.IV.45

In the third place, the money-system is common to all production of commodities, and the product appears as a commodity in the most varied organisms of social production. The characteristic mark of capitalist production would then be only the extent to which the product is manufactured for purposes of trade, as a commodity, and the extent to which its own elements of formation enter as commodities into the economy which creates that product.
I.IV.46

It is true, that capitalist production has for its general form the production of commodities. But it is so and becomes more so in its development, only because labor itself here appears as a commodity, because the laborer sells labor, that is to say the function of his labor-power, and our assumption is that he sells it at a value determined by its cost of reproduction. To the extent that labor becomes wage-labor, the producer becomes an industrial capitalist. For this reason capitalist production (and the production of commodities) does not reach its full scope, until the agricultural laborer becomes a wage-laborer. In the relation of capitalist and wage-laborer, the relation between the buyer and the seller, the money-relation, becomes an imminent relation of production. And this relation has its foundation in the social character of production, not of circulation. The character of the circulation rather depends on that of production. It is

however, quite characteristic of the bourgeois horizon, which is entirely bounded by the craze for making money, not to see in the character of the mode of production the basis of the corresponding mode of circulation, but vice versa.*11
I.IV.47

The capitalist throws less value in the form of money into the circulation than he draws out of it, because he throws into it more value in the form of commodities than he had withdrawn from it. To the extent that he is simply a personification of capital, an industrial capitalist, his supply of commodity-value is always larger than his demand for that value. The equality of his supply and demand in this respect would indicate that his capital had not produced any surplus-value; it would not have performed the functions of productive capital; the productive capital would have been converted into commodity-capital which would not be impregnated with surplus-value; it would not have drawn any surplus-value in commodity-form out of labor-power during the process of production, it would not have performed any capital-functions at all. The capitalist must indeed "sell dearer than he has bought," but he succeeds only in doing so, because the capitalist process of production enables him to transform the cheaper commodity, which contains less value, into a dearer commodity with increased value. He sells dearer, not because he gets more than the value of his commodity, but because his commodity contains a greater value than that contained in the natural elements of its production.

I.IV.48

The rate at which value is added to the capital of the capitalist increases in proportion to the difference between his supply and his demand, that is to say in proportion as the surplus of the commodities which he places on the market exceeds the value of the commodities which he has taken from it. His aim is not to equalize his supply and demand, but to make the difference between them as much as possible in favor of his supply.

I.IV.49

What is true of the individual capital, also applies to the capitalist class.

I.IV.50

In so far as the capitalist personifies but his industrial capital, his own demand is only for means of production and labor-power. His demand for Pm, expressed in value, is smaller than his advanced capital; he buys means of production of a value smaller than his capital, and therefore much smaller than the value of the commodity-capital which he takes back to the market.

I.IV.51

As regards his demand for labor-power, its value is determined by the proportion of his variable capital to his total capital, as expressed by

V÷C. Its proportion in capitalist production decreases continually more than his demand for means of production. His purchases of Pm steadily increase over his purchases of L.
I.IV.52

Inasmuch as the laborer generally converts his wages into means of existence, and for the overwhelmingly larger part necessities of life, the demand of the capitalist for labor-power is indirectly also a demand for the articles of consumption assimilated by the working class. But this demand is equal to v and not one atom greater. If the laborer saves a part of his wages‘we do not consider any questions of credit at all‘he converts a part of his wages into a hoard and does not perform the functions of a purchaser to that extent. The limit of the maximum demand of the capitalist is C, equal to c plus v, but his supply for the market is c plus v plus s. If the composition of his commodity-capital is 80c+20v+20s, his demand is equal to 80c+20v, or one fifth smaller in value than his supply. His demand as compared to his supply decreases in proportion as the percentage of the mass of surplus-value produced by him (his rate of profit) increases. Although the demand of the capitalist for labor-power, and thus indirectly for necessities of life, decreases continually compared to his demand for means of production in the further development of production, it must not be forgotten that day by day his demand for Pm is always smaller than his capital. His demand for means of production must, therefore, be always smaller in value than the commodity-product of the

capitalist who, working with a capital of equal value and conditions like his, furnishes him with those means of production. It does not alter the case, if many capitalists instead of one furnish him with means of production. Take it that his capital is 1,000 pounds sterling, and its constant part 800 pounds sterling; then his demand on all the capitalists supplying him is equal in value to 800 pounds sterling. Together they supply for each 1,000 pounds sterling means of production valued at 1,200 pounds sterling, assuming that the rate of profit is the same for all of them, regardless of the rate at which they share in the 1,000 and of the proportion which the share of each one may represent in his total capital. The demand of the buying capitalist covers only two-thirds of the supply of the sellers, while his total demand equals only four-fifths of the value of his own supply to the market.

I.IV.53

It still remains to anticipate the analysis of the problem of turn-over. Let the total capital of the capitalist be 5,000 pounds sterling, of which 4,000 pounds is fixed and 1,000 pounds circulating capital; these 1,000 pounds sterling are composed of 800 c plus 200 v, as assumed before. His circulating capital must be turned over five times per year in order that his fixed capital may be turned over once. His commodity-product is then equal in value to 6,000 pounds sterling, it is valued at 1,000 pounds sterling more than his advanced capital, so that the same proportion of surplus-value is obtained as before:

5,000 C÷1,000 s=100(c+v)÷20 s.

I.IV.54

This turn-over does not change anything in the proportion of the total demand of the capitalist to his total supply. The former remains one-fifth smaller than the latter.

I.IV.55

Take it that his fixed capital must be reproduced in 10 years. Hence he sinks every year one tenth, or 400 pounds sterling, so that he has only a value of 3,600 pounds of fixed capital left plus 400 pounds in money. Inasmuch as repairs are necessary which do not exceed the average, they represent nothing but capital invested later. We may look at the matter from the standpoint that he has allowed for the expenses for repairs when calculating the value of his investment, so far as this enters into the annual commodity-product, so that they are included in that one tenth of sinking fund. If the repairs cost less than the average he is so much money in pocket, and in the reverse case he loses it. At any rate, although his demand, after his total capital has been turned over once a year, still remains at 5,000 pounds sterling which was the value of the original capital advanced, it increases so far as the circulating part of this capital is concerned, while it decreases so far as the fixed part is concerned.

I.IV.56

We now come to the question of reproduction. Take it that the capitalist consumes the entire surplus-value composed of money m and reconverts only the original capital-value C into productive capital. Then the demand of the capitalist is equal to his supply; but this does not refer to the movements of his capital. As a capitalist, his demand is only for four-fifths of value of his supply. He consumes one-fifth as a non-capitalist; he consumes it, not in the performance of his function as capitalist, but for his private requirements or pleasure.

I.IV.57

His calculation, expressed in percentages, stands as follows:

Demand as capitalist... 100, supply 120.
Demand as man of the world 20, supply 0.

Total demand... 120, supply 120.

I.IV.58

This assumption amounts to a non-existence of capitalist production, and thus the non-existence of the industrial capitalist himself. For capitalism is destroyed in its very foundation, if we assume that its compelling motive is enjoyment instead of the accumulation of wealth.

I.IV.59

But such an assumption is also technically impossible. The capitalist must not only form a reserve-capital as a protection against fluctuations of value and as a fund enabling him to wait for favorable conditions of the market for sale and purchase; he must also accumulate capital, in order to extend his production and embody the progress of technique in his productive organization.

I.IV.60

In order to accumulate capital, he must first withdraw a a part of the surplus-value from circulation which he obtained from that circulation in the form of money, and must hoard it until it has increased sufficiently for the extension of his old business or the opening of a side-line. So long as the formation of the hoard continues, it does not increase the demand of the capitalist. The money is then inactive. It does not withdraw from the commodity-market any equivalent in commodities for the money-equivalent which it withdrew for commodities supplied to it.

I.IV.61

Credit is not considered here. And credit includes the depositing, on the part of the capitalist, of accumulating money in a bank on payment of interest as shown by a running account.

Notes for this chapter

11.
End of Manuscript V. What follows to the end of the chapter is a note found in a Manuscript of 1877 or 1878 amid extracts from other works.

Part I,

Volume II Chapter V THE TIME OF CIRCULATION.
*12

I.V.1

We have seen that the movement of capital through the sphere of production and the two phases of circulation takes place in a succession of time. The duration of its sojourn in the sphere of production is its time of production, that of its stay in the sphere of circulation its time of circulation.
I.V.2

The time of production naturally includes the period of the labor-process, but is not comprised in it. We must first remember that a part of the constant capital exists in the form of instruments of production, such as machinery, buildings, etc., which serve for the

repeated labor-processes until they are worn out. Periodical interruptions of the labor-process by night, etc., interrupt the function of these instruments of production, but not their location on the place of production. They belong to this place when they are not in function as well as when they are. On the other hand, the capitalist must have a definite supply of raw material and auxiliary substances in readiness, in order that the process of production may take place for a longer or shorter time on a previously determined scale, without being dependent on the accidents of a daily supply from the market. This supply of raw material, etc., is consumed productively by degrees. There is, therefore, a difference between its time of production*13 and its time of function. The time of production of the means of production in general comprises, therefore, first the time during which they serve as means of production by taking part in the productive process; second, the stops during which a certain process of production, and thus the function of the means of production embodied in it, is interrupted; third, the time during which the means of production are held in readiness as requirements for the process of production, during which they represent productive capital, without having entered into the process of production.
I.V.3

The difference so far discussed is always the difference between the time which the productive capital passes in the sphere of production and that in the process of production. But the process of production

itself may require interruptions of the labor-process, and thus of the labor time, and during such pauses the object of labor is exposed to the influence of physical processes without the intervention of human labor. The process of production, and thus the function of the means of production, continue in this case, although the labor-process, and thus the function of the means of production as instruments of labor, have been interrupted. This applies, for instance, to the grain, after it has been sowed, the wine fermenting in the cellar, the labor-material of many manufacturers, such as tanneries, where the material is given over to chemical processes. The time of production is then greater than the labor-time. The difference between the two consists in an excess of the time of production over the labor-time. This excess always arises by the latent existence of productive capital in the sphere of production, without performing its function in the process of production itself, or by the performance of its function in the productive process without taking part in the labor-process.
I.V.4

That part of the latent productive capital, which is held in readiness as a requirement for the productive process, such as cotton, coal, etc., in a spinnery, produces neither products nor value. It is fallow capital, although its fallow condition is a requirement for the uninterrupted flow of the process of production. The buildings, apparatus, etc., necessary for the storage of the productive supply (latent capital) are requirements of the productive process and therefore component parts

of the advanced productive capital. They perform their function as conservators of the elements of production in a preliminary stage. Inasmuch as labor-processes are required in this stage, they add to the cost of the raw material, etc., but they are productive labor and produce surplus-value, because a part of this labor, like all wage-labor, is not paid. The normal interruptions of the entire process of production, the pauses in which the productive capital does not perform any functions, create neither value nor surplus-value. Hence the tendency to keep the work going at night (Volume I, chapter X, 4).'The intervals in the labor-time, which the object of labor must endure in the process of production itself, create neither value nor surplus-value. But they advance the product, form a part of its life, a process through which it must necessarily pass. The value of the apparatus, etc., is transferred to the product in proportion to the entire time, during which they perform their function; the product is brought to this stage by labor itself, and the employment of these apparatus is as much a requirement of production as the wasting of a part of the cotton which does not enter into the product, but nevertheless transfers its value to that product. The other parts of latent capital, such as buildings, machinery etc., that is to say those instruments of labor whose function is interrupted only by the regular pauses of the productive process (irregular interruptions caused by the restriction of production, crises, etc., are total losses) create additional values without entering into the creation of the product. The total value which this part of capital adds to the product, is determined by

the average time which it lasts, for its own value, being use-value, diminishes during the time that it performs its functions as well as during that in which it does not.
I.V.5

Finally, the value of the constant part of capital, which continues in the productive process although the labor-process is interrupted, re-appears in the result of the productive process. Labor itself has here placed the means of production in a condition, where they pass without further assistance through certain useful processes, the result of which is a definite advantage or a change in the form of the use-values. Labor always transfers the value of the means of production to the product, to the extent that it really consumes them to good effect as means of production. And it does not change the case, whether labor has to be exerted continually on its object in order to produce this effect, or whether it merely gives the first impulse for it by placing the means of production in a condition wherein they undergo the intended transformation through the influence of natural processes, without further assistance from labor.
I.V.6

Whatever may be the reason for the excess of the time of production over the labor-time‘whether it is that the means of production are still latent capital in a stage preliminary to the actual productive process, or that their function is interrupted within the process of production

by its pauses, or that the process of production itself requires an interruption of the labor-process‘in none of these cases do the means of production assimilate any labor. And if they do not assimilate any labor, they do not imbibe any surplus-labor. Hence the productive capital does not increase its value, so long as it remains in that part of its time of production which exceeds the labor-time, no matter how indispensable these pauses may be for the realization of the process of increasing value. It is plain, that the productivity and increment of a given productive capital in a given time are so much greater, the more nearly the time of production and labor-time are equal. Hence we have the tendency of capitalist production to reduce the excess of the time of production over the labor-time as much as possible. But although the time of production of a certain capital may exceed its labor-time, it always includes the latter, and its excess is a logical condition of the process of production. The time of production, then, is always that time in which a capital produces use-values and surplus-values, and in which it performs the functions of productive capital, although it includes time in which it is either latent or produces without creating surplus-values.
I.V.7

Within the sphere of circulation, capital abides as commodity-capital and money-capital. Its two processes of circulation consist in its transformation from the commodity-form into that of money, and from the money-form into that of commodities. It does not alter the

character of these processes as transactions in circulation, of processes in the simple metamorphosis of commodities, that this transformation of commodities into money is at the same time a realization of the surplus-values embodied in the commodities, and that the transformation of money into commodities is at the same time a transformation or reconversion of capital-value into the forms of its elements of production.
I.V.8

The time of circulation and time of production mutually exclude one another. During its time of circulation, capital does not perform the functions of productive capital and therefore produces neither commodities nor surplus-value. If we study the cycle in its simplest form, so that the entire capital-value passes in one bulk from one phase into the other, we can plainly see that the process of production is interrupted and therefore also the production of surplus-value, so long as its time of circulation lasts, and that the renewal of the process of production will take place promptly or slowly, according to the length of the time of circulation. But if the various parts of capital pass through the cycle successively, so that the rotation of the entire capital-value proceeds successively by the rotation of its component parts, then it is evident that the part performing continually the function of productive capital must be so much smaller, the longer the aliquot parts of capital-value remain in the sphere of circulation. The expansion and contraction of the time of circulation

are therefore a check on the contraction or expansion of the time of production or of the volume which a given capital can assume for its productive function. To the extent that the metamorphoses of circulation of a certain capital are reduced, to the extent that the time of circulation approaches zero, its productivity and increment of surplus-value will increase. For instance, if a capitalist executes an order, so that he receives payment for his goods on delivery, and if this payment is made in his own elements of production, the time of circulation of his capital approaches zero.
I.V.9

In short, the time of circulation of a certain capital limits its time of production and the process of creating surplus-value. And this limitation is proportional to the duration of the time of circulation. Seeing that this time may increase or decrease in different ratios, it may limit the time of production in various degrees. But political economy sees only the seeming effect, that is to say the effect of the time of circulation on the creation of surplus-values in general. It takes this negative effect for a positive one, because its results are positive. It clings so much the more to this semblance from which surplus-value flows toward it through the circulation, independently of its process of production and the exploitation of labor. We shall see later, that even scientific political economy has been deceived by this appearance of things. Various phenomena contribute to this deception:
1. The capitalist method of calculating profit, in which the negative

cause figures as a positive one, seeing that with capitals in different spheres of investment, with different times of circulation only, a longer time of circulation tends toward an increase of prices, in short serves as one of the causes which bring about an equalization of profits. 2. The time of circulation is but a factor in the period of turn-over; and this period includes both the time of production and reproduction. What is really due to the period of turn-over, seems to be due to the time of circulation. 3. The conversion of commodities into variable capital (wages) is conditioned on their previous conversion into money. In the accumulation of capital, the conversion into additional variable capital takes place in circulation, or during the time of circulation. It thus appears as though this accumulation were due to the time of circulation.

I.V.10

Within the sphere of circulation, capital passes through the two opposite phases of C‘M and M‘C, no matter in what succession. Hence its time of circulation is likewise divided into two parts, viz.: the time required for its conversion from money into commodities, and that required for its conversion from commodities into money. We have already learned from the analysis of the simple circulation of commodities (Vol. I, Chap. III), that C‘M, the sale, is the most difficult part of its metamorphosis and that, therefore, under ordinary conditions, it takes up the greater part of its time of circulation. As money, value exists in its ever convertible form. But as a commodity,

value must first be transformed into money in order to assume such a directly convertible from of continual readiness. However, in the process of circulation of capital, its phase C‘M deals with commodities which constitute definite elements of productive capital in a certain investment. The means of production may not be on the market and must first be produced, or they must be ordered from distant markets, or their ordinary supply is interrupted, or prices change, etc., in short there are a multitude of circumstances which are not visible in the simple change of form from M to C, but which nevertheless require more or less time for this part of the phase of circulation. C‘M and M ‘C may not only be separate in time, but also in space, the selling and the buying market may be located apart. In the case of factories, for instance, the buyer and seller are frequently different persons. In the production of commodities, circulation is as necessary as production itself, so that agents are just as much needed in circulation as in production. The process of reproduction includes both functions of capital, therefore it also includes the necessity of having representatives for both of them, either in the person of the capitalist or of wage-workers, as his agents. But this is no more a good reason for mistaking the agents in circulation for those in production than it is to confound the functions of commodity-capital and money-capital with those of productive capital. The agents of circulation must be paid by the agents of production. And since capitalists who mutually sell and buy do not create either values or products by these transactions, this state of affairs is not changed, if they are enabled

or compelled by the expansion of their business to charge others with those transactions.
I.V.11

In some business, the buyers and sellers get their wages in the form of percentages on the profits. It does not alter the matter to use the phrase that they are paid by the consumer. The consumers can pay only inasmuch as they are themselves instrumental in producing an equivalent in commodities as agents of production or appropriate it out of the product of other agents in production, whether it be by means of legal titles or of personal services.
I.V.12

There is difference between C‘M and M‘C, which has nothing to do with the different forms of commodities and money, but arises from the capitalist character of production. Intrinsically, C‘M as well as M‘C is merely a conversion of a given value out of one form into another. But C'‘M' is at the same time a realization of the surplus-value contained in C'. Not so M‘C. For this reason the sale is more important than the purchase. M‘C is under normal conditions a necessary act for the creation of more value by means of the value contained in it, but it is not the realization of surplus-value; it is the intimation of its production, not its after-effect.
I.V.13

The form in which a commodity exists, the form of its use-value, prescribes definite limits for the circulation of commodity-capital C'‘M'. Use-values are naturally perishable. Hence, if they are not productively or individually consumed within a certain time, in other words, if they are not sold within a certain period, they spoil and thus lose with their use-value also the faculty of being bearers of surplus-value. The capital-value, or eventually the surplus-value, contained in them is lost. The use-values do not remain the bearers of perennial capital-value increasing by the addition of surplus-value, unless they are continually reproduced and replaced by new use-values of the same or of some other order. The sale of the use-values in the form of finished commodities, their transfer to the productive or individual consumption by means of this sale, is the ever recurring requirement for their reproduction. They must change their old use-form within a certain time, in order to continue their existence in a new form. Exchange-value maintains itself only by means of this constant renewal of its substance. The use-values of certain commodities spoil sooner or later; the time between their production and consumption may therefore be long or short; they may retain the form of commodity-capital in phase C‘M of the circulation for a shorter or longer term and endure a shorter or a longer time of circulation. The limit of the time of circulation of a certain commodity-capital imposed by the spoiling of the substance of the commodity is the absolute limit of this part of the time of circulation, or of the time of circulation of commodity-capital as such. To the extent that a commodity is perishable, to the

extent that it must be sold and consumed as soon as possible after its production, its capacity for removal from its place of production is restricted, the sphere of its circulation is narrowed, its selling market is localized. For this reason a commodity is so much less suited for capitalist production as it is perishable, as its physical composition limits its time of circulation. It is available for this purpose only in thickly populated districts, or to the extent that the improvement of transportation brings places closer together. But the concentration of the production of such articles into a few hands and in a populous district may create a relatively large market even for them, for instance, such as the product of large beer-breweries, dairies, etc.

Notes for this chapter

12.
Beginning of Manuscript IV.
13.
Time of production of the means of production does not mean, in this case, the time required for their production, but the time during which they take part in the process of production of a certain commodity.‘F. E.

Part I,

Volume II Chapter VI THE EXPENSES OF CIRCULATION.

I. GENUINE EXPENSES OF CIRCULATION.

1. The Time of Purchase and Sale.

I.VI.1

The transformations of capital from commodities into money and from money into commodities are at the same time transactions of the capitalist, acts of purchase and sale. The time in which these transformations take place constitutes from the personal standpoint of the capitalist a purchase and selling time, it is the time during which he performs the functions of a buyer and seller on the market. Just as the time of circulation of capital is a necessary part of its time of reproduction, so the time in which the capitalist buys and sells and remains in the market is a necessary part of the time in which he performs the functions of a capitalist, in which he personifies capital. It is a part of his business time.

I.VI.2

*14Since we have assumed that commodities are bought and sold at their values, these transformations constitute merely a conversion of the same value from one form into another, from the form of commodities into that of money or vice versa, a change of composition in substance. If commodities are sold at their values, then the magnitude in the hands of the buyer and seller remains unchanged. Only the form of its existence is changed. If the commodities are not sold at their values, then the sum of the

converted values remains the same; the plus on one side is offset by a minus on the other.

I.VI.3

The metamorphoses C‘M and M‘C are transactions between buyers and sellers; they require time to perfect the trade, the more so as this represents a struggle in which each seeks to get the best of the other; for to business men applies the statement: "When Greek meets Greek, then comes the tug of war." The conversion of a commodity costs time and labor-power, not for the purpose of creating values, but in order to accomplish the conversion of value from one form into another. The mutual attempt to appropriate an extra share of this value, changes nothing fundamentally. This work, increased by the evil designs on either side, does not create value any more than the work done in a civil process increases the value of the object of contention. It is with this labor, which is a necessary part of the totality of the capitalist process of production, including the circulation or included by it, as it is with the labor of combustion of some element used for the generation of heat. This labor of combustion does not generate any heat, although it is a necessary part in the process of combustion. In order to employ coal as fuel, it must combine with oxygen, and for this purpose coal must be brought to the condition of carbonic acid gas; in other words, a physical change of form must take place. The separation of carbon molecules, which are united into a solid mass, and the breaking up of these molecules into their atoms, must

precede the new combination, and this requires a certain effort, which is not transformed into heat, but taken from it. If the owners of commodities are not capitalists, but direct producers, the time required for buying and selling is so much loss of labor time, and for this reason such transactions were deferred in ancient and medieval times to holidays.
I.VI.4

Of course, the dimensions acquired by the business in commodities in the hands of the capitalists cannot transform this labor, which does not create any values and promotes merely changes of form, into labor productive of surplus-value. Nor can this miracle of transsubstantiation be accomplished by unloading this work of "combustion" from the shoulders of the industrial capitalists to those of paid employees who attend to it exclusively. These employees will not tender their services out of pure love for the capitalists. The collector of some real-estate owner or the messenger of some bank is indifferent to the fact that their labor does not add any value to the rent or to the money carried to the bank in bags.*15
I.VI.5

For the capitalist who has others working for him, selling and buying become primary functions. Seeing that he appropriates the products of many on a large social scale, he must sell on the same scale and then reconvert the money into elements of production. But still neither

the sale nor the purchase create any values. An illusion is here created by the function of merchant's capital. But without entering at this point into a detailed discussion of this fact, we can plainly see this much: If a function, which is unproductive in itself, although a necessary link in reproduction, is transformed by a division of labor from an incidental occupation of many into an exclusive occupation of a few, the character of this function is not changed thereby. One merchant, as an agent promoting the transformation of commodities by assuming the role of a mere buyer and seller, may abbreviate by his operations the time of sale and purchase for many producers. To that extent he may be regarded as a machine which reduces a useless expenditure of energy or helps to set free some time of production.*16

I.VI.6

In order to simplify the matter, seeing that we shall not discuss the merchant as a capitalist and his capital as merchant's capital until later, we shall assume that this buying and selling agent is a man who sells his labor-power. He expends his labor-power and labor-time in the operations C‘M and M‘C. And he makes his living that way, just as another does by spinning or by making pills. He performs a necessary function, because the process of reproduction itself includes an unproductive function. He works as well as any other man, but intrinsically his labor creates neither products nor values. He belongs himself to the unproductive expenses of production. His services do

not transform an unproductive function into a productive one, nor unproductive into productive labor. It would be a miracle, if such a transformation could be accomplished by a mere transfer of a function. His usefulness consists rather in the fact that a small part of the labor-power and labor-time of society is tied up in this unproductive function. We shall assume that he is a wage-worker, even though better paid than others. Whatever may be his wages, in the role of a wage-worker he always works a part of his time for nothing. He may receive in wages the value of the product of eight working hours, when he performs his functions for ten hours. But his two hours of surplus-labor do not produce any surplus-values any more than his eight hours of necessary labor, although by means of these eight hours of necessary labor a part of the social product is transferred to him. In the first place, looking at it from the standpoint of society, his labor-power is used up for ten hours in a mere function of circulation. It cannot be used otherwise, for productive labor. In the second place, society does not pay for those two hours of surplus-labor, although they are expended by the man who worked during that time. Society does not appropriate any surplus-product or value through them. But the expenses of circulation, which he represents, are thereby reduced by one-fifth, from ten hours to eight. Society does not pay any equivalent for this fifth of this actual time of circulation, of which he is the agent. But if this man is employed by a capitalist, then the non-payment of these two hours reduces the expenses of circulation of his capital, which represent a deduction

from his income. For the capitalist this is a positive gain, because the negative limit for the utilization of his capital is thereby reduced. So long as small independent producers of commodities spend a part of their own time in selling and buying, this shows itself either as time spent during the intervals of their productive function, or as a reduction of their time of production.
I.VI.7

At all events, the time required for this purpose is an expense of circulation, which does not add any increment to the converted values. It is the expense which is required in order to convert them from commodities into money. Inasmuch as the capitalist producer of commodities appears as an agent of circulation, he differs from the direct producers of commodities only by the fact that he buys and sells on a larger scale and therefore is a greater factor in circulation. And if the expansion of his business compels or enables him to hire his own wage-laborers as agents of circulation, the nature of this phenomenon is not changed in any way. A certain amount of labor-power and labor-time must be expended in the process of circulation, so far as it is merely a change of form. But this now appears as an additional expenditure of capital. A part of the variable capital must be expended in the purchase of these labor-powers active only in circulation. This advance of capital creates neither products nor values. It reduces to that extent the volume of the productive function of capital. It is as though one part of the product were transformed into

a machine, which buys or sells the rest of the product. This machine deducts so much from the product. It does not participate in the productive process, although it can reduce the labor-power required for the circulation. It constitutes simply a part of the expenses of circulation.

2. Bookkeeping.

I.VI.8

Apart from the actual selling and buying, labor-time is expended in bookkeeping, which assimilates more materialized labor, such as pens, ink, paper, desks, office-expenses. This function, therefore, requires labor-power and materials. It is the same condition of things which we observed in the case of the time of sale and purchase.

I.VI.9

As a principle of unity within its cycles, as a value in process of rotation, whether it be in the sphere of production or in both phases of the sphere of circulation, capital exists ideally only in the form of accounting money, principally in the mind of the producer of commodities, more especially the capitalist producer of commodities. This movement is fixed and controlled by bookkeeping, which includes also the determination of prices, or the calculation of the prices of commodities. The movement of production, especially of the production

of values‘in which the commodities figure as bearers of value, as mere names of things, the ideal existence of which as values is crystallized in accounting money‘thus is symbolically reflected in imagination. So long as the individual producer of commodities keeps account only in his head (for instance a farmer; a bookkeeping tenant is not known until capitalist production introduces him), or incidentally, outside of his time of production, makes a note of his expenses, receipts, instalment days, etc., just so long does it appear intelligible that this function, and the materials consumed by it, such as paper, etc., require an additional expenditure of labor-time and materials, which is necessary, but constitutes a deduction from the time available for productive consumption and from the materials which are used in the actual process of production and are embodied in the creation of products and values.*17 The nature of the function itself is not changed. The volume which it assumes by its concentration in the hands of the capitalist producer of commodities, who transforms it from a function of many small producers into that of one single capitalist within a process of large scale production does not alter the case, neither is its nature affected by its separation from those productive functions, which it accompanied incidentally, nor by its modification into an independent function of agents exclusively entrusted with it.

I.VI.10

The division of labor, the assuming of independence, does not make a function productive, if it was not so before it became independent. If a capitalist invests his capital anew, then he must invest a part of it in hiring a bookkeeper, etc., and materials for bookkeeping. If his capital is already in active operation, in the process of continual reproduction, then he must continually reconvert a part of his commodity-product by means of its transformation into money, into a bookkeeper, salesman, etc. This part of his capital is withdrawn from production and belongs to the expenses of circulation, deductions from the total product (including the labor-power itself, which is expended wholly for this function).
I.VI.11

But there is a certain difference between the expenses incidental to bookkeeping, or the unproductive expenditure of labor-time on one side, and that of mere selling and buying time on the other. The latter arise only from the definite social form of the process of production, they are due to the fact that it is a production of commodities. Bookkeeping, for the control and ideal survey of the process, becomes necessary to the extent that the process assumes a social scale and loses its purely individual character. It is, therefore, more necessary in capitalist production than in scattered handicraft and agricultural production, and still more necessary in co-operative than in capitalist production. But the expenses of bookkeeping are

reduced to the extent that production is concentrated and becomes social bookkeeping.

I.VI.12

We are here concerned only about the general character of the expenses of circulation, which arise out of the general metamorphoses. It is superfluous to discuss all its details. To what extent phenomena, which are mere incidents in changes of form due to the social character of the process of production, may deceive the eyes when they cease to be imperceptible and incidental accompaniments of individual production, we may observe in the case of the mere handling of money, when it is concentrated into an exclusive function of banks on a large scale, or of a cashier in individual businesses. But it must be remembered, that these expenses of circulation do not change their character by changing their form.

3. Money.

I.VI.13

Whether a product is intended for a commodity or not, it is always a materialized form of wealth, a use-value to be productively or individually consumed. If it is a commodity, its value is ideally expressed in its price, which does not change its actual use-value. But the fact that certain commodities, such as gold and silver, may

perform the function of money and as such reside exclusively in the process of circulation (even in the form of a hoard, a reserve fund, etc., they remain in the sphere of circulation, although latent), is due to the definite social form of the process of production, which is a production of commodities. Since capitalist production gives to all its products the general form of commodities, and since the overwhelming mass of products are produced for sale and must therefore assume the form of money, and since the commodity-part of the social wealth grows continually in proportion, it follows that the quantity of gold and silver employed as means of circulation, paying medium, reserve fund, etc., must likewise increase. These commodities performing the function of money do not enter either into productive or into individual consumption. They represent social labor fixed in a form in which it may serve as a mere machine in circulation. Apart from the fact that a part of the social wealth is tied up in this unproductive form, the wearing out of the money constantly requires its reproduction, or the conversion of more social labor, in the form of products, into mere gold and silver. These expenses of reproduction are considerable in capitalistically developed nations, because there is a large part of the wealth tied up in the form of money. Gold and silver as money-commodities represent social expenses of circulation, due to the social form of production. They are dead expenses of commodity-production in general, and they increase with the development of this production, especially when capitalized. They

represent a part of the social wealth, which must be sacrificed in the process of circulation.*18

II. EXPENSES OF STORAGE.

I.VI.14

Expenses of circulation, which are due to a mere change of form in circulation, ideally speaking, do not enter into the value of the commodities. The capital parts expended for them are deductions from the productively expended capital, so far as the capitalist is concerned. Not so the expenses of circulation which we shall consider now. They may arise from processes of production, which are continued only in circulation, the productive character of which is merely concealed by the form of the circulation. Or, on the other hand, they may represent from the standpoint of society mere unproductive expenses of subjective or materialized labor, which for this very reason they may become productive of value for the individual capitalist, by making an addition to the price of his commodities. This follows from the simple fact that these expenses are different in different spheres of production, or even for different individual capitalists in the same sphere of production. When added to the prices of commodities, they are divided in proportion as they fall upon the shoulders of the various individual capitalists. But all labor which adds value can also add surplus-value, and will always do so under capitalist production,

the value created by it depending on the amount of the labor, the surplus-value added depending on the amount which the capitalist pays for it. In other words, expenses which increase the price of a commodity without adding anything to its value, which therefore are dead expenses so far as society is concerned, may be a source of profit for the individual capitalist. On the other hand, in so far as the addition to the price of commodities merely distributes these expenses of circulation equally, the unproductive character of this expenditure is not changed. For instance, insurance companies divide the losses of individual capitalists among the capitalist class. But this does not alter the fact that these equalized losses are losses so far as the aggregate social capital is concerned.

1. General Formation of Supply.

I.VI.15

During its existence as commodity-capital, or its stay on the market, in other words, in the interval between the process of production from which it originates and the process of consumption into which it enters, the product forms a supply of commodities. As a commodity on the market, and therefore in the form of a supply, the commodity-product figures twice in each cycle: The first time as the commodity-product of that rotating capital whose cycle is being considered; the second time as the commodity-product of another capital, which must

be found ready on the market, in order to be bought and converted into productive capital. It is, indeed, possible that this last-named commodity-capital is not produced until ordered. In that case, an interruption occurs until it has been produced. But the flow of the process of production and reproduction required that a certain mass of commodities (means of production) should be always on the market, that there should be a supply of them. In the same way, productive capital comprises the purchase of labor-power and the money-form is here only that form of the value of means of existence which the laborer must find at hand on the market, for the greater part. We shall discuss this more in detail in a short while; suffice it to make this point at present.
I.VI.16

From the standpoint of the rotating capital-value, which has been transformed into a commodity-product and must now be sold or reconverted into money, which, therefore, has for the moment the function of commodity-capital on the market, the condition in which it forms a supply is contrary to its intentions and its stay on the market is involuntary. The sooner the sale is effected, the smoother runs the process of reproduction. The delay in the phase C‘M' prevents the actual change of substance which must take place in the rotation of capital and obstructs its further function as productive capital. On the other hand, so far as M‘C is concerned, the constant presence of a supply of commodities on the market is a requirement for the flow of

the process of reproduction and of the investment of new or additional capital.
I.VI.17

The demurrage of the commodity-capital as a supply on the market requires buildings, stores, storage places, warehouses, in other words, an expenditure of constant capital; furthermore the payment of labor-power for storing the commodities. Finally, the commodities spoil and are exposed to injurious elementary influences. Additional capital is required to protect them, and this capital must be invested in materialized labor as well as in labor-power.*19
I.VI.18

We see, then, that the sojourn of commodity-capital as a supply on the market causes expenses, which belong to the expenses of circulation, since they do not fall within the sphere of production. These expenses of circulation differ from those mentioned under I, by the fact that they enter in part into the value of the commodities, in other words, that they increase the price of commodities. Under all circumstances the capital and labor-power required for the conservation and storage of the commodity-supply, are withdrawn from the direct process of production. On the other hand, the capitals thus employed, including their labor-power, must be reproduced by the social product. Their expenditure, therefore, reduces the productivity of labor-power to that extent, so that a greater amount of capital and

labor is needed to obtain a certain intended effect. They are dead expenses.

I.VI.19

Inasmuch as the expenses of circulation arising out of the formation of a supply of commodities are due merely to the time required for the transformation of existing commodity-values into money, in other words, inasmuch as they are due to the prevailing social form of production, which makes the production of commodities and their transformation into money imperative, they share the character of the expenses of circulation enumerated under I. On the other hand, the value of the commodities is here preserved or increased, because the use-value, the product itself, is placed in conditions which require an outlay of capital. The commodities are submitted to operations, which expend additional labor on the use-values. But the computation of the values of commodities, the bookkeeping incidental to this process, the transactions of sale and purchase, do not influence the use-values in which the exchange-values of the commodities are embodied. These transactions concern merely the form of the values. Although, in the present case, the expenses of keeping a supply (which is done involuntarily) arise only from a delay of the metamorphosis and from its necessity, these expenses differ from those mentioned under I, in that they are not made for the purpose of effecting a change of form, but for the purpose of preserving the value embodied in the commodity as a use-value, which cannot be preserved in any other

way than by preserving the use-value, the product, itself. The use-value is neither increased nor raised in value, on the contrary, it diminishes. But its diminution is restricted and it is preserved. Neither is the advanced value contained in the commodity increased, although new materialized and subjective labor is added.
I.VI.20

We have now to investigate furthermore, to what extent these expenses arise from the peculiar nature of the production of commodities in general and from the prevailing absolute form of this mode of production, its capitalistic form; and to what extent they are common to all social production and merely assume a peculiar form and mode of expression in capitalist production.
I.VI.21

Adam Smith has expressed the strange opinion, that the formation of a supply is a phenomenon peculiar to capitalist production alone.*20 More recent economists, for instance Lalor, insist on the other hand, that it declines with the development of capitalist production. Sismondi even regards this as one of the drawbacks of this mode of production.
I.VI.22

As a matter of fact, the supply exists in three forms: In the form of productive capital, in the form of a fund for individual consumption,

and in the form of a commodity-supply or commodity-capital. The supply in one form decreases relatively, when it increases in another, although it may increase absolutely in all three forms simultaneously.
I.VI.23

It is plain from the outset, that wherever production is carried on for direct consumption on the part of the producer, and only to a minor extent for exchange or sale, where the social product does not assume the character of commodities at all, or only to a small degree, there the supply in the form of commodities can be only a small and insignificant part of the social wealth. On the other hand, the supply for consumption is relatively large, especially that of the means of existence. We have but to take a look at ancient agriculture, in order to understand this. The overwhelming part of the product there constitutes directly a supply of means of production and means of existence, without becoming a supply of commodities, because it remains in the hands of its producers and owners. It does not assume the form of a supply of commodities, and for this reason Adam Smith declares that there is no supply at all in societies based on this form of production. He confounds the form of the supply with the supply itself and believes that society hitherto lived from hand to mouth or trusted to the luck of the next day.*21 This is a naive misunderstanding.
I.VI.24

A supply in the form of productive capital exists in the shape of means of production, which are either in operation in the process of production, or at least in the hands of the producer, so that they are latent in the process of production. We have seen previously, that with the development of the productivity of labour, and therefore with the development of the capitalist mode of production, which develops the socially productive power of labor more than all previous modes of production, there is a steady increase of the mass of means of production, which are permanently embodied in the productive process as instruments of labor and perform their function in it for a longer or shorter time at repeated intervals (buildings, machinery, etc.); also, that this increase is at the same time the premise and result of the development of the productivity of social labor. It is especially capitalist production, which is characterized by relative as well as absolute growth of this sort of wealth. The material forms of existence of constant capital, the means of production, do not consist merely of such instruments of labor, but also of raw material in various stages of finish and of auxiliary substances, with the enlargement of the scale of production and the increase in the productivity of labor by co-operation, division, machinery, etc., the mass of raw materials and auxiliary substances used in the daily process of reproduction, grows likewise. These elements must be ready at hand in the shop. The volume of this form of productive capital increases absolutely. In order that the process may flow along smoothly‘apart from the fact whether this supply may be renewed daily or only at fixed intervals‘there must

always be more raw material, etc., accumulated at the place of production than is used up, say, daily or weekly. The continuity of the process requires that the fulfillment of its conditions should neither depend on its possible interruption by daily purchases, nor on the daily or weekly sale of the product, so that the regularity of its reconversion into its elements of production may not be broken. But it is evident, that the productive capital may be latent, or form a supply, in different proportions. There is, for instance, quite a difference, whether a spinner must have on hand a supply of cotton or coal for three months or for one. Plainly this supply may decrease relatively, while it may at the same time increase absolutely.
I.VI.25

This depends on various conditions, all of which practically amount to the requirement that there shall be a greater rapidity, regularity, and security in furnishing the necessary amount of raw material always in such a way, that there may be no interruption. To the extent that these conditions are not fulfilled, to the extent that there is no rapidity, regularity, and security of supply, the latent part of the productive capital in the hands of the producer, that is to say the supply of raw materials waiting to be used, must increase in size. These conditions are inversely proportional to the degree of development of capitalist production, and thus to the productive power of social labor. The same applies to the supply in this form.
I.VI.26

However, that which appears as a decrease of the supply, for instance, to Lalor, is in part merely a decrease of the supply in the form of commodity-capital, or of the actual commodity-supply; it is only a change of form of the same supply. If, for instance, the mass of coal daily produced in a certain country, and therefore the scale and energy of the coal-industry, are great, the spinner does not need a large store of coal in order to insure the continuity of his production. The security of the continuous reproduction of the coal supply makes this unnecessary. In the second place, the rapidity with which the product of one process may be transferred as means of production to another process depends on the development of the means of transportation and communication. The cheapness of transportation plays a great role in this question. The continually renewed transport, for instance, of coal from the mine to the spinnery, would be more expensive than the storing up of a large supply for a long time when the price of transportation is relatively cheap. These two circumstances are due to the process of production itself. In the third place, the development of the credit-system exerts an influence on this question. The less the spinner is dependent on the immediate sale of his yarn for the renewal of his supply of cotton, coal, etc.,‘and this dependence will be so much smaller, the more the credit-system is developed‘the smaller can be the relative size of these supplies, in order to insure independence from the hazards of the sale of yarn for the continuous production of yarn on a given scale. In the

fourth place, many raw materials, and half-finished products, etc., require long periods of time for their production, and this applies especially to all raw materials furnished by agriculture.
I.VI.27

If no interruption of the process of production is to take place, there must be a certain amount of raw materials on hand for the entire period, in which no new products can take the places of the old. If this supply decreases in the hands of the capitalist, it proves merely that it increases in the hands of the merchant in the form of a supply of commodities. The development of transportation, for instance, makes it possible to convey the cotton stored in the import warehouses of Liverpool rapidly to Manchester, so that the manufacturer can renew his supply in small portions according to his needs. But in that case, the cotton remains in so much larger quantities as a commodity-supply in the hands of the merchants in Liverpool. It is therefore merely a question of a change of form, and Lalor and others have overlooked this. And from the standpoint of social capital, the same quantity of products still remains in the form of a supply. The quantity of the supply required for, say, a whole nation during the period of one year decreases to the extent that the means of transportation are developed. If a large number of sailing vessels trade between America and England, the opportunities of England for the renewal of its supply of cotton are increased and quantity of the cotton supply to be held in storage on an average

decreases. The same effect is produced by the development of the world-market and thus the multiplication of the sources of supply of the same articles. Various quantities of this supply are carried to the market from different countries and at different intervals.

2. The Commodity-Supply in Particular.

I.VI.28

We have already seen that the product assumes the general form of commodities on the basis of capitalist production, and to the extent that the scale and scope of this production increase, this character becomes prevalent. Even if production retains the same scale, there will still be a far greater proportion of the product in the form of commodities, compared to other modes of production. And all commodities, and therefore all commodity-capital, which is but another expression for commodities in the form of capital-value, constitute an element of the commodity-supply, unless they pass immediately from the sphere of production into productive or individual consumption, instead of remaining on the market in the interval between production and consumption. If the scale of production remains the same, the commodity-supply, that is to say, the individualization, and fixation of the commodity-form of the product, grows therefore with the development of capitalist production. We have seen, furthermore, that this is merely a change of form on the part of the supply, that is to

say the supply in the form of commodities increases on one side, while on the other the supply in the form of direct means of production for consumption decreases. It is merely a question of a changed form of the social supply. The fact that it is not only the relative size of the commodity-supply compared to the aggregate social product which increases, but also its absolute size, is due to the growth of the aggregate product with the advance of capitalist production.
I.VI.29

With the development of capitalist production, the scale of production becomes less and less dependent on the immediate demand for the product and falls more and more under the determining influence of the amount of capital available in the hands of the individual capitalist, of the instinct for the creation of more value inherent in capital, of the need for the continuity and expansion of its processes of production. This necessarily increases the mass of products required in each branch of production in the shape of commodities. The amount of capital fixed for a longer or shorter period in the form of commodity-capital grows proportionately. In short, the commodity-supply increases.
I.VI.30

Finally, the majority of the members of human society are transformed into wage workers, into people who live from hand to mouth, who

receive their wages weekly and spend them daily, who therefore must find a supply of the necessities of life ready at hand. Although the individual elements of this supply may be in continuous flow, a part of them must always suffer delay in order that the supply may be ever renewed.
I.VI.31

All these characteristics are due to the form of capitalist production and to the metamorphoses incidental to it, which the product must undergo in the process of circulation.
I.VI.32

Whatever may be the social form of the supply of products, its preservation requires an outlay for buildings, storage facilities, etc., which protect the product; furthermore for means of production and labor, more or less of which must be expended, according to the nature of the product, in order to preserve it against injurious influences. The more the supply is socially concentrated, the smaller are the relative expenses. These expenses always consume a part of the social labor, either in a materialized or in a subjective form; they require an outlay of capital which does not enter into the productive process itself and thus diminish the product. They constitute the cost of preserving the social wealth, and are, therefore, necessary expenses, without regard to the fact whether the existence of the social product in the form of a commodity-supply is due merely to the

social form of production, to the commodity-form and its metamorphoses, or whether we regard the commodity-supply merely as a special form of the supply of products, a supply common to all societies, though not always in the form of commodity-supply, which is a form of the supply of products belonging to the process of circulation.
I.VI.33

The question is now, to what extent these expenses enter into the value of commodities.
I.VI.34

If the capitalist has converted the capital advanced by him for means of production and labor-power into a product, into a mass of commodities ready for sale, and these commodities remain in stock unsold, then it is not only the creation of values by means of his capital which is interrupted. The expenses required for the conservation and storage of this supply in buildings, etc., and for additional labor, signify a positive loss for him. The final buyer would laugh in his face, if he were to say to him: "My articles were unsalable for six months, and their preservation during that period did not only make so and so much of my capital unproductive, but also cost me so much extra-expenses." "So much the worse for you," would the buyer say. "Here is another seller, whose articles were completed the day before yesterday. Your articles are old and

probably more or less injured by the ravages of time. Therefore you will have to sell cheaper than your rival."
I.VI.35

It does not alter the life-processes of a commodity, whether its producer is a direct producer or a capitalist producer, who is merely a representative of the actual producer. The product must be converted into money. The expenses caused by the fixation of the product in the form of commodities are a part of the individual adventures of the seller, and the buyer does not concern himself about them. The buyer does not pay for the time of circulation of the commodities. Even if the capitalist holds his goods back intentionally, in times of an actual or expected revolution of values, it depends on the materialization of this revolution of values, on the correctness or incorrectness of the seller's speculation, whether he will recover his outlay or not. Inasmuch, therefore, as the formation of a supply involves a delay in the circulation, the expenses caused thereby do not add anything to the value of the commodities. On the other hand, there cannot be any supply without a sojourn of the commodities in circulation, without the stay of capital for a longer or shorter time in the form of commodity; hence there cannot be any supply without a delay of the circulation. It is the same with money, which cannot circulate without the formation of money-reserve. Hence there cannot be any circulation of commodities without a supply of commodities. If this necessity does not confront the capitalist in C'‘M', it will do so in M‘C; not so far as

his own commodity-capital is concerned, but that of other capitalists, who produce means of production for him and necessities of life for his laborers.
I.VI.36

It appears that the nature of the case is not altered, whether the formation of a supply is voluntary or involuntary, that is to say whether the producer accumulates a supply intentionally or whether his product forms a supply in consequence of the resistance offered to its sale by the conditions of the process of circulation. But it is useful for the solution of this question to know what distinguishes the voluntary from the involuntary formation of a supply. The involuntary formation of a supply arises from, or is identical with, an interruption of the circulation, which is independent of the knowledge of the producer of commodities and thwarts his will. And what characterizes the voluntary formation of a supply? The seller seeks to get rid of his commodity as much as ever. He always offers his product as a commodity. If he were to withdraw it from sale, it would be only a latent, not an effective organ of the commodity-supply. The commodity as such is still as much as ever a bearer of exchange-value and can become effective only by discarding the commodity-form and assuming the money-form.
I.VI.37

The commodity-supply must have a certain size, in order to satisfy the demand during a given period. The continual extension of the circle of buyers is one of the factors in the calculation. For instance, in order to last to a certain day, a part of the commodities on the market must retain the form of commodities while the remainder continue in flow and are converted into money. The part which is delayed while the rest keep moving decreases continually, to the extent that the size of the entire supply decreases, until it is all sold. The delay of the commodities is thus calculated on as a necessary requirement of their sale. The size of the supply must be larger than the average sale or the average extent of the demand. Otherwise the excess over this average could not be satisfied. At the same time, the supply must be continually renewed, because it is continually dissolved. This renewal cannot come from anywhere in the last instance than from production, from a new supply of commodities. Whether this comes from abroad or not, does not alter the case. The renewal depends on the periods required by the commodities for their reproduction. The commodity-supply must last during these periods. The fact that it does not remain in the hands of the original producer, but passes through various stores from the wholesaler to the retailer, changes merely the aspect, not the nature of the thing. From the point of view of society, a part of capital still retains the form of a commodity-supply, so long as the commodities have not been consumed productively or individually. The producer tries to keep a supply corresponding to his average demand, in order to be somewhat independent of the process

of production and to insure for himself a steady circle of customers. Corresponding to the periods of production, terms of sale are formed and the commodities form a supply for a longer or shorter time, until they can be replaced by new commodities of the same kind. The continuity and regularity of the process of circulation, and therefore of the process of reproduction, which includes the circulation, is safeguarded only by the formation of a supply.
I.VI.38

It must be remembered that C'‘M' may have been transacted for the producer of C, although C may still be on the market. If the producer were to keep his own commodities until they are sold to the last consumer, he would have to invest two capitals, one as a producer and one as a merchant. For the commodity itself, whether we look upon it as an individual commodity or as a part of social capital, it is immaterial whether the expenses of the formation of a supply fall on the shoulders of its producer or on those of a series of merchants from A to Z.
I.VI.39

In so far as the commodity-supply is nothing but the commodity-form of the supply which would exist at a given scale of social production either as a productive supply or as a supply of means of consumption, if it did not have the form of a commodity-supply, the expenses required for its conservation and formation, that is to say the

expenses for materialized and subjective labor, are merely converted expenses for maintaining either the social fund for production or the social fund for consumption. The increase of the value of commodities caused by them distributes these expenses simply pro rata to the different commodities, since the cost is different for different kinds of commodities. And the expenses for the formation of the supply are as much as ever deductions from the social wealth, although they are one of its requirements.
I.VI.40

The circulation of commodities is normal only to the extent that the formation of a commodity-supply is its premise and necessarily arises by means of it, only in so far as this apparent stagnation is a part of the rotation itself, just as it is in the case of the formation of a money-reserve. But as soon as the commodities resting in the reservoirs of circulation refuse to give space to the succeeding wave of so that the reservoirs are overstocked, the commodity-supply expands just as the hoards do, if the circulation of money is clogged. It does not make any difference, whether this stop occurs in the magazines of the industrial capitalist or in the warehouses of the merchant. The supply is in that case not the premise of the uninterrupted sale, but the result of the impossibility of selling the goods. The expenses remain the same, but since they now arise entirely out of the form, that is to say, out of the necessity of selling the commodities, and out of the obstacles to this metamorphosis into

money, they do not enter into the values of the commodities, but cause deductions, losses, from the value to be realized. Since the normal and abnormal form of the supply cannot be distinguished externally, and both of them are clogging the circulation, these phenomena may be confounded and may deceive the agent in production so much easier as the process of circulation of the capital of the producer may continue smoothly, while that of the commodities he has sold to merchants may be arrested. If the size of production and consumption increase, other conditions remaining the same, then the size of the commodity-supply increases likewise. It is renewed and absorbed just as fast, but its size is greater. Hence the growing size of the commodity-supply caused by a delay in the circulation may be mistaken for a symptom of the expansion of the process of reproduction, especially when the development of the credit-system makes it possible to mystify the real nature of the movement. I.VI.41

The expense of the formation of the supply consist (1) of quantitative losses of the mass of the product (for instance, in the case of a supply of flour); (2) in a spoiling of the quality; (3) in the materialized and individual labor required for the conversion of the supply.

III. EXPENSES OF TRANSPORTATION.

I.VI.42

It is not necessary to enter at this place into all the details of the expenses of circulation, such as packing, sorting, etc. The general law is that all expenses of circulation, which arise only from changes of form, do not add any value to the commodities. They are merely expenses required for the realization of value, or for its conversion from one form into another. The capital invested in those expenses (including the labor employed by it) belongs to the dead expenses of capitalist production. They must be made up out of the surplus-product and are, from the point of view of the entire capitalist class, a deduction from the surplus-value or surplus product, just as the labor required for the purchase of the necessities of life is lost time for the laborer. But the expenses of transportation play a too prominent role to pass them by without a few short remarks.

I.VI.43

Within the rotation of capital and the metamorphoses of commodities which are a part of that rotation, the mutation-processes of social labor take place. These mutation-processes may require a change of location on the part of the products, their transportation from one place to another. Still, a circulation of commodities may take place without their change from place to place, and a transportation of products without a circulation of commodities, or even without a direct exchange of products. A house which is sold by A to B does not

wander from one place to another, although it circulates as a commodity. Movable commodity-values, such as cotton or iron ore, remain in the same warehouse at a time when they are passing through dozens of circulation processes, when they are bought and resold by speculators.*22 That which really changes its place here is the title of ownership, not the thing itself. On the other hand, transportation played a prominent role in the land of the Incas, although the social product did not circulate either as a commodity or by means of exchange.

I.VI.44

Even though the transportation industry under capitalist production appears as a cause of expenses of circulation, this special form does not alter the nature of the problem.

I.VI.45

Quantities of products are not increased by transportation, neither is the eventual alteration of their natural qualities, with a few exceptions, the result of premeditated action, but an inevitable evil. But the use-value of things has no existence except in consumption, and this may necessitate a change of place on the part of the product, in other words, it may require the additional process of production of the transportation industry. The productive capital invested in this industry adds value to the transported products, partly by transferring value from the means of transportation, partly by adding value through the

labor-power used in transportation. This last-named addition of value consists, as it does in all capitalist production, of a reproduction of wages and of surplus-value.
I.VI.46

Within each process of production, the change of place of the object of labor and the required instruments of labor and labor-power‘such as cotton which passes from the carding to the spinning room, or coal which is hoisted from the shaft to the surface‘play a great role. The transition of the finished product, in the role of a finished commodity, from one independent place of production to another in a different location shows the same phenomenon on a larger scale. The transport of the products from one factory to another is finally succeeded by the passage of the finished products from the sphere of production to that of consumption. The product is not ready for consumption until it has completed these movements.
I.VI.47

We have shown previously that a general law of the production of commodities decrees: The productivity of labor and its faculty of creating value stand in opposition to one another. This is true of the transportation industry as well as of any other. The smaller the amount of materialized and subjective labor required for the transportation of the commodities over a certain distance, the greater is the productivity of labor, and vice versa.*23

I.VI.48

The absolute magnitude of the value which the transportation of the commodities adds to them is smaller in proportion as the productivity of the transportation industry increases, and vice versa, and directly proportional to the distance traveled, other conditions remaining the same.

I.VI.49

The relative magnitude of the value added to the prices of commodities by the cost of transportation, other conditions remaining the same, is directly proportional to their volume and weight. But there are many modifying circumstances. Transportation requires, for instance, more or less provision for protection against accidents, and therefore more or less expenditure of labor and instruments of labor, according to the relative fragility, perishable nature, explosiveness of the articles. In this department, the railroad magnates show a greater talent for inventing fantastic species than botanists and zoologists. The classification of the articles on English railroads fills volumes and rests in general on the tendency of transforming the many-sided natural qualities of commodities into so many difficulties of transportation and inevitable excuses for exploitation. "Glass, which was formerly valued at the rate of 11 pounds sterling per crate, is now valued at only 2 pounds sterling in consequence of industrial improvements and the abolition of the glass-tax, but the railway rates are as high as ever

and exceed the cost of transportation by water. Formerly glass and glass ware for lead work was carried for 10 shillings per ton within a radius of 50 miles of Birmingham. Now the rates have been raised to thrice that figure on the pretext of the risk involved by the fragility of the article. But if anything is broken, the railway management does not pay for it.*24 The fact that the relative magnitude of the value added by the cost of transportation to the articles is inversely proportional to their values furnishes a special excuse for the railroads to tax the articles in direct proportion to their values. The complaints of the industrials and merchants on this score are found on every page of the testimony of witnesses given before the royal commission on railways.

I.VI.50

The capitalist mode of production reduces the cost of transportation for the individual commodities by the development of the means of transportation and communication, by their concentration, the scale of their traffic, etc. It increases that part of the materialized and subjective social labor, which is expended in the transportation of commodities, first by converting the great majority of all products into commodities, secondly, by substituting distant for local markets.

I.VI.51

The circulation, that is to say the actual perambulation of the commodities through space, is carried on in the form of transportation.

The transportation industry forms on one hand an independent branch of production, and thus a special sphere of investment of productive capital. On the other hand, it is distinguished from other spheres of production by the fact that it represents a continuation of a process of production within the process of circulation and for its benefit.

Notes for this chapter

14.
From here to 10 are statements taken from a note at the end of Manuscript VIII.
15.
See explanation 9a.
16.
"The expenses of commerce, although necessary, must be regarded as a burden." (Quesnay, Analyse du Tableau Economique, in Daire. Physiocrates, part I, Paris, 1846, page 71.) According to Quesnay, the "profit," which the competition between merchants produces, and which he sees in the fact that competition compels them "to figure a discount on their loss or gain...is really nothing but a prevention of loss for the seller at first hand or for the consuming buyer. Now, a prevention of loss on the expenses of commerce is not a real product or an increase of wealth through commerce, considering it simply as an exchange, whether with or without the cost of transportation." (Pages 145 and 146.) "The expenses of commerce are always paid by

those who sell the products and who would enjoy the full prices paid for them by the buyers, if there were no incidental expenses." (Page 163, Ibidem.) The "proprietaires" and "producteurs" are "salariants," the merchants are "salaries." (Page 164, Quesnay, Problemes Economiques, in Daire, Physiocrates, Part I, Paris, 1846.)

17.

In the middle ages, we find bookkeeping for agriculture only in the convents. But we have seen in Vol. I, that a bookkeeper was installed for agriculture as early as the primitive Indian communes. Bookkeeping is then made an independent function of a communal officer. This division of labor saves time, pains, and expenses, but production and bookkeeping for production remain as much two different things as a cargo of a ship and the way-bill. In the person of the bookkeeper, a part of the labor-power of the commune is withdrawn from production, and the cost of his function is not produced by his own labor, but by a deduction from the communal product. What is true of the bookkeeper of an Indian commune, is true under changed circumstances of the bookkeeper of the capitalists. (From Manuscript II.)

18.

"The money circulating in a country is a certain portion of the capital of the country, absolutely withdrawn from productive purposes, in order to facilitate or increase the productiveness of the remainder; a certain amount of wealth is, therefore, as necessary in order to adopt

gold as a circulating medium, as it is to make a machine, in order to facilitate any other production." (Economist, Vol. V, Page 519.)

19.

Corbet calculates, in 1841, that the cost of storing wheat for a season of nine months amounts to a loss of 1½ per cent in quantity, 3 percent for interest on the price of wheat, 2 per cent for warehouse rental, 1 per cent for sifting and drayage, ½ per cent for delivery, together 7 per cent, or 3 sh. 6 d. on a price of 50 sh. per quarter. (Th. Corbet, An Inquiry Into the Causes and Modes of the Wealth of Individuals, etc., London, 1841.) According to the testimony of Liverpool merchants before the railroad commission, the net expenses of grain storage in 1865 amounted to 2 d. per month per quarter, or 9 to 10 d. per ton. (Royal Commission on Railways, 1867. Evidence, page 19, Nr. 331.)

20.

Wealth of Nations, Book II, Introduction.

21.

Instead of a supply arising from the conversion of the product into a commodity, and of the supply of articles of consumption into commodities, as Adam Smith thinks, this transformation, on the contrary, causes violent crises in the economy of the producer during the transition from production for use to production for sale. In India, for instance, the custom of storing up large quantities of grain in years of superfluity, when little could be gotten for it, was observed until very recent times. (Return. Bengal and Orissa Famine. H. of C.,

1867, I, page 230, Nr.74.) The sudden increase in the demand for cotton, jute, etc., led in many parts of India to a restriction of rice culture, a rise in the price of rice, and a sale of old supplies of the producers. Then followed the unexampled export of rice to Australia, Madagascar, etc., in 1864-66. This accounts for the acute character of the famine of 1866, which cost the lives of more than a million inhabitants in the district of Orissa alone (1. c. 174, 175, 213, 214, and III. Papers relating to the Famine in Behar, pages 32, 33, where the "drain of the old stock" is emphasized as one of the causes of the famine).‘From Manuscript II.

22.

Storch calls this circulation factice.

23.

Ricardo quotes Say, who considers it one of the blessings of commerce that it increases the price, or the value, of the products by transportation. "Commerce," writes Say, "enables us to obtain a commodity at its original place of production and to transport it to another place for consumption; it enables us, therefore, to increase the value of commodities by the entire difference between their price at the first and that at the second place." Ricardo remarks with reference to this: "True, but how is the additional value given to it? By adding to the cost of production, first, the expenses of conveyance, secondly, the profit on the advances of capital made by the merchant. The commodity is only more valuable, for the same reason that every other commodity may become more valuable, because more labor is

expended on its production and conveyance before it is purchased by the consumer. This must not be mentioned as one of the advantages of commerce." (Ricardo, Principles of Political Economy, 3rd ed., London, 1821, pp. 309, 310.)

24.

Royal Commission of Railways, p. 31, No. 630.

PART II

The Turn-Over of Capital.

Part II,

Volume II Chapter VII THE PERIOD AND NUMBER OF TURN-OVERS.

II.VII.1

We have seen that the entire time of rotation of a given capital is equal to the sum of its time of circulation plus its time of production. It is the period of time from the moment of the advance of capital-value in a definite form to the return of the rotating capital-value in the same form.

II.VII.2

The compelling motive of capitalist production is always the creation of value by means of the advanced value, no matter whether this value is advanced in its independent money-form, or in commodities, in

which case its value is only ideally independent in the price of the advanced commodities. In both cases this capital- value passes through various forms of existence during its rotation. Its identity with itself is confirmed by the books of the capitalists, or in the ideal form of calculating money.
II.VII.3

No matter whether we consider the formula M...M' or the formula P...P, both forms imply (1) that the advanced value performs the function of capital-value and has created more value; (2) that it has returned to the form in which it began its rotation, having completed its cycle. The creation of more value by means of the advanced value M and the return of capital to this money-form is plainly visible in M...M'. But the same takes place in the second formula. For the starting point of P is the existence of the elements of production, of commodities having a given value. The formula includes the creation of value by means of the advanced value (C' and M') and the return to the original form, for in the second P the advanced value has again the form of the elements of production in which it was originally advanced.
II.VII.4

We have seen previously: "If production be capitalistic in form, so, too, will be reproduction. Just as in the former the labor-process figures but as a means towards the self-expansion of capital, so in

the latter it figures but as a means of reproducing as capital, i.e., as self-expanding value, the value advanced." (Vol. I, chap. XXIII, p. 620.)

II.VII.5

The three formulæ (1) M...M', (II) P...P, and (III) C'...C', present the following distinctions: In formula II, P...P, the renewal of the process by the process of reproduction is expressed as a reality, while it is only implied as a probability in formula I. But both of these formulæ differ from III by the fact that in them the advanced capital-value, either in the form of money or of material elements of production, is the starting and returning point. In M...M', the return to M' means M plus m. If the process is renewed on the same scale, M is again the starting point and m does not enter into it, but shows merely that M performed the function of capital and created surplus-value m, which it threw off. In the formula P...P, capital-value P advanced in the form of means of production is likewise the starting point. This form includes the creation of more value. If simple reproduction takes place, the same capitalist renews the same process in the same form P. If accumulation takes place, then P' (equal in magnitude of value to M' and C') reopens the cycle as an expanded capital-value. But it begins with the advanced capital-value in its original form, although it is of greater value than before. In form III, on the other hand, capital-value does not begin the process as an advance, but as an expanded value, as the aggregate wealth existing in the form of

commodities, of which the advanced value is but a part. This last form is important for the third part of this volume, in which the movement of the individual capitals is discussed in connection with the movements of the aggregate social capital. But it is not available for the discussion of the turn-over of capital, which always begins with the advance of capital-value in the forms of money or commodities, and which always requires the return of the rotating capital-value to the form in which it had been advanced. Of these cycles I and II, the former is serviceable in the study of the influence of the turn-over on the formation of surplus-value, the latter in the study of its influence on the formation of the product.
II.VII.6

Economists have not distinguished the different relations of the turn-over of capital to its cycles any more than they have distinguished between these cycles. They generally consider the formula M...M, because it dominates the individual capitalist and serves for a basis of his calculations, even if money is the starting point of this cycle only in the form of calculating money. Others start out from the outlay of capital in the form of elements of production and follow the cycle to the point of return, without alluding to the form of the returns, be they commodities or money. For instance, "the economic cycle,...the whole course of production, from the time that outlays are made till returns are received. In agriculture, seed time is its commencement, and harvesting its ending." S. P. Newman, Elements of Political

Economy, Andover and New York, p. 81. Others begin with C', the third form. Says Th. Chalmers, in his work on "Political Economy," 2nd Ed., London, 1832, p. 84 and following, in substance: The world of the productive traffic may be regarded as rotating in a cycle, which we will call the economic cycle. Each cycle is completed, whenever the business, after passing through its successive transactions, returns to its starting point. The beginning may be made at the point where the capitalist gets his receipts, which return his capital. From this point, the capitalist proceeds once more to hire his laborers and parcel out to them their subsistence, or rather the means to purchase it with wages. They manufacture for him the articles which are his specialty. And the capitalist then takes his articles to the market and brings the cycle of this one series of transactions to a close by selling and receiving in the price of his commodities a return for his entire investment of capital.
II.VII.7

As soon as the entire capital-value invested by some individual capitalist in any one branch of production has completed the cycle of its movements, it finds itself once more in the form in which it started and is ready to repeat the same process. It must repeat this process, if value is to perpetuate itself as capital-value and create more value. The individual cycle is but a fragment in the life of capital, it is a period which is continually repeated. At the end of the period M...M' capital has once more the form of money-capital, which

passes anew through that series of metamorphoses in which its process of reproduction, or self-expansion, is included. At the end of the period P...P, capital has resumed the form of elements of production, which are the requirement for a renewal of its cycle. The rotation of capital, considered as a periodical process, not as an individual event, constitutes its turn-over. The duration of this turn-over is determined by the sum of its time of production plus its time of circulation. This sum constitutes the time of turn-over. It measures the passing of time while the entire capital-value goes through the period of its cycle until it reaches the next one. It counts the periods in the life of capital, or, the time of the renewal, repetition, of the process of self-expansion, which is the process of production, of the same capital-value.
II.VII.8

Apart from the individual adventures which may accelerate or retard the time of turn-over of individual capitals, this time is different according to the different spheres of investment of capitals.
II.VII.9

Just as the working day is the natural unit for the function of labor-power, so the year is the natural unit for the periods of turn-over of rotating capital. The natural basis of this unit is found in the fact that the most important crops of the temperate zone, which is the mother country of capitalist production, are annual products.

II.VII.10

If we designate the year as the unit of the time of turn-over by T, the time of turn-over of a given capital by t, and the number of its turn-overs by n, then n = T/ t. If, for instance, the time of turn-over t is 3 months, then n is equal to 12/ 3, or 4: in other words, capital is turned over four times per year. If t is equal to 18 months, then n = 12/ 18 = 2/ 3, capital completes only two-thirds of its turn-over in one year. If its time of turn-over is several years, it is computed in multiples of one year.

II.VII.11

From the point of view of the capitalist, the time of turn-over is the time for which he must advance his capital in order to create value with it and have it returned in its original form.

II.VII.12

Before we can study the influence of the turn-over on the processes of production and self-expansion, we must take a look at two new forms which accrue to capital from the process of circulation and influence the form of its turn-over.

Part II,

Volume II Chapter VIII FIXED CAPITAL AND CIRCULATING CAPITAL.

1. Distinctions of Form.

II.VIII.1

We have seen in vol. I, chap. VIII, that a portion of the constant capital retains that form of the use-value, in which it entered into the process of production and does not share in the transfer to the products toward the creation of which it contributes. In other words, it performs for a longer or shorter period, in the ever repeated labor process, the same function. This applies, for instance, to buildings, machinery, etc., in short to all things which we comprise under the name of instruments of labor. This part of constant capital yields value to the product in proportion as it loses its own exchange-value with the dwindling of its use-value. This transfer of value from an instrument of production to the product which it helps to create is determined by a calculation of averages. It is measured by the average, duration of its function, from the moment that the instrument that it is completely spent and must be reproduced, or replaced by a new specimen of the same kind.

II.VIII.2

This, then is the peculiarity of this part of constant capital of the instruments of labor:

II.VIII.3

A certain part of capital has been advanced in the form of constant capital, of instruments of labor, which now perform their function in the labor-process so long as their own use-value lasts, which they bring with them into this process. The finished product, with the elements it absorbed from the instruments of production, is pushed out of the process of production and transferred as a commodity to the sphere of circulation. But the instruments of labor never leave the sphere of production, once that they have entered it. Their function holds them there. A certain portion of the advanced capital-value is fixed in this form by the function of the instruments of labor in the process of production. In the performance of this function, and thus by the wear and tear incidental to it, a part of the value of the instruments of labor is transferred to the product, while another remains fixed in the instruments of labor and thus in the process of production. The value thus fixed decreases constantly, until the instrument of labor is worn out, its value having been distributed during a shorter or longer period, over a mass of products which emanated from a series of currently repeated labor processes. But so long as an instrument of labor is still effective and has not been replaced by a new specimen of the same kind, a certain amount of constant capital-value remains fixed in it, while another part of the value originally fixed in it is transferred to the product and circulates as a component part of the commodity-supply. The longer an instrument lasts, the slower it wears out, the longer will its constant

capital-value remain fixed in this form of use-value. But whatever may be its durability, the proportion in which it yields its value is always inverse to its entire time of service. If of two machines of equal value, one wears out in five years and the other in ten, then the first yields twice as much value in the same time as the second.
II.VIII.4

This value fixed in the instruments of labor circulates as well as any other. We have seen that all capital-value is constantly in circulation, and that in this sense all capital is circulating capital. But the circulation of the portion of capital which we are now studying is peculiar. In the first place, it does not circulate in its use-form, but it is merely its exchange-value which circulates, and this takes place gradually and piecemeal, in proportion as it is transferred to the product which circulates as a commodity. During the entire period of its service, a portion of its value always remains fixed in it, independent of the commodities which it helps to produce. It is this peculiarity which gives to this portion of capital the character of fixed capital. On the other hand, all other substantial parts of the capital advanced in the process of production form the circulating, or fluid, capital.
II.VIII.5

Some portions of the means of production do not yield their substance to the product. Such are auxiliary substances, which are consumed by

the instruments of labor themselves in the performance of their function, such as coal consumed by a steam engine; or substances which merely assist in the operation, such as gas for lighting, etc. It is only their value which forms a part of the value of products. In circulating its own value, the product circulates theirs. To this extent they share the fate of the fixed capital. But they are entirely consumed in every labor-process which they enter, and must therefore be replaced by new specimens of their kind in every new labor-process. They do not preserve their own use-form while performing their function. Hence no portion of capital-value remains fixed in their natural use-value during their service. The fact that this portion of the auxiliary substances does not pass bodily into the product, but yields only its value to swell thereby the value of the product, although the function of these substance is confined to sphere of production, has misled some economists, for instance Ramsay‘who also confounded fixed capital with constant capital‘to class them among the fixed capital.
II.VIII.6

That part of the means of production which yields its substance to the product, in other words, the raw materials, may eventually assume forms which enable it to pass into individual consumption. The instruments of labor, properly so called, that is to say, the material bearers of the fixed capital, can be consumed only productively and cannot pass into individual consumption, because their substance does

not enter into the product, into the use-value, which they help to create, but they rather retain their independent form until they are completely worn out. The means of transportation are an exception to this rule. The useful effect which they produce by their productive function during their stay in the sphere of production, that is to say, the change of location, passes simultaneously into the individual consumption, for instance into that of a traveler. He pays for its use in the same way in which he pays for the use of other articles of consumption. We have seen that sometimes the raw material and auxiliary substances pervade one another, for instance in the manufacture of chemicals. In the same way, instruments of labor, raw material and auxiliary substances may pervade one another. In agriculture, for instance, the substances employed for the improvement of the soil pass into the plants and help to form the product. On the other hand, their influence is distributed over a lengthy period, say four or five years. A portion of them, therefore, pass into the product and enhance its value, while another portion remains fixed in its old use-form and retains its value. It persists as an instrument of production and retains the form of fixed capital. An ox is fixed capital, so long as it is a beast of toil. If it is eaten, it does not perform the functions of an instrument of production, and is, therefore, not fixed capital.

II.VIII.7

That which determines whether a certain portion of the capital-value invested in means of production is fixed capital or not is exclusively the peculiar manner in which this value circulates. This peculiar manner of circulation arises from the peculiar manner in which the means of production yield their value to the product, that is to say the manner in which the means of production participate in the creation of values in the process of production. This, again, arises from the special nature of the function of these means of production in the labor-process.
II.VIII.8

We know that the same use-value, which comes as a product from one labor-process, passes as a means of production into another. It is only the function of a product as a means of production in the labor-process which stamps it as fixed capital. But to the extent that it arises itself out of such a process, it is not fixed capital. For instance, a machine, as a product, as a commodity of the machine manufacturer, belongs to his commodity-capital. It does not become fixed capital, until it is employed productively in the hands of its purchaser.
II.VIII.9

All other circumstances being equal, the degree of fixity increases with the durability of the means of production. This durability determines the magnitude of the difference between the capital-value fixed in the

instruments of labor and between that part of its value which is yielded to the product in successive labor-processes. The slower this value is yielded‘and some of it is given up in every repetition of the labor-process‘the larger will be the fixed capital, and the greater will be the difference between the capital employed and the capital consumed in the process of production. As soon as this difference has disappeared, the instrument of labor has ceased to live and lost, with its use-value, also its exchange-value. It has ceased to be the bearer of value. Since an instrument of labor, the same as every other material bearer of constant capital, yields value only to the extent that its use-value is converted into exchange-value, it is evident that the period in which its constant capital-value remains fixed will be so much longer, the longer it lasts in the process of production, the more slowly its use-value is lost.
II.VIII.10

If any one means of production, which is not an instrument of labor, strictly speaking, such as auxiliary substances, raw material, partly finished articles, etc., yields and circulates its value in the same way as the instruments of production, then it is likewise the material bearer, the form of existence, of fixed capital. This is the case with the above-mentioned improvements of the soil, which add chemical substances to the soil, the influence of which is distributed over several periods of production, or years. In this case, a portion of the value continues to exist independently of the product, it persists in the

form of fixed capital, while another portion has been transferred to the product and circulates with it. And in the latter case, it is not alone a portion of the value of the fixed capital which is transferred to the product, but also a portion of the use-value, the substance in which this portion of value is embodied.
II.VIII.11

Apart from the fundamental mistake‘the confounding of the categories "fixed capital and circulating capital" with the categories "constant capital and variable capital"‘the confusion of the economists in the matter of definitions is based on the following points:
II.VIII.12

They make of certain qualities, embodied in the substances of the instruments of labor, direct qualities of fixed capital, for instance, the physical immobility of a house. It is always easy in that case to prove that other instruments of labor, which are likewise fixed capital, have an opposite quality, for instance, physical mobility, such as a vessel's.
II.VIII.13

Or, they confound the definite economic form, which arises from the circulation of value, with some quality of the object itself, as though things which are not at all capital in themselves, but rather become so under given social conditions, could be of themselves and intrinsically capital in some definite forms, such as fixed or circulating

capital. We have seen in volume I that the means of production in every labor-process, regardless of the social conditions in which it takes place, are divided into instruments of labor and objects of labor. But both of them do not become capital until the capitalist mode of production is introduced, and then they become "productive capital," as shown in the preceding part. Henceforth the distinction between instruments and objects of labor, based on the nature of the labor-process, is reflected in the new distinction between fixed and circulating capital. It is then only, that a thing which performs the function of an instrument of labor, becomes fixed capital. If it can serve also in other capacities, owing to its material composition, it may be fixed capital or not, according to the functions it performs. Cattle as beasts of toil are fixed capital; if they are fattened, they are raw material which finally enters into circulation as commodities, in other words, they are circulating, not fixed capital.
II.VIII.14

The mere fixation of some means of production for a certain length of time in repeated labor-processes, which are consecutively connected and form a period of production, that is to say, the entire period required to complete a certain product, demands advances from the capitalist for a longer or shorter term, just as fixed capital does, but this does not give to his capital the character of fixed capital. Seeds, for instance, are not fixed capital, but only raw material which is held for about a year in the process of production. All capital is held in the

process of production, so long as it performs the function of productive capital, and so are, therefore, all elements of productive capital, whatever may be their substantial composition, their function and the mode of circulation of their value. Whether the period of fixation lasts a long or a short time, according to the manner of the process of production or the effect aimed at, it does not determine the distinction between fixed and circulating capital.*25
II.VIII.15

A portion of the instruments of labor, which determine the general conditions of labor, may be located in a fixed place, as soon as it enters on its duties in the process of production or is prepared for them, for instance, machinery. Or it is produced from the outset in its locally fixed form, such as improvements of the soil, factory buildings, kilns, canals, railroads, etc. The constant fixation of the instrument of labor in the process of production is in that case also due to its mode of material existence. On the other hand, an instrument of labor may continually be shifted bodily from place to place, may move about, and nevertheless be continually in the process of production, for instance, a locomotive, a ship, beasts of burden, etc. Neither does immobility in the one case bestow the character of fixed capital on the instrument of labor, nor does mobility in the other case deprive it of this character. But the fact that some instruments of labor are attached to the soil and remain so fixed, assigns to this portion of fixed capital a peculiar role in the economy of nations. They cannot

be sent abroad, cannot circulate as commodities on the market of the world. The titles to this fixed capital may be exchanged, it may be bought and sold, and to this extent it may circulate ideally. These titles of ownership may even circulate on foreign markets, for instance in the form of stocks. But the change of the persons of the owners of this class of fixed capital does not alter the relation of the immobile, substantially fixed part of national wealth to its circulating part.*26
II.VIII.16

The peculiar circulation of fixed capital results in a peculiar turn-over. That part of value which is lost by wear and tear circulates as a part of the value of the product. The product converts itself by means of its circulation from commodities into money; hence the value of the instrument of labor circulated by the product does the same, and this value is precipitated in the form of money by the process of circulation in the same proportion in which the instrument of labor loses its value in the process of production. This value has then a double existence. One part of it remains attached to the form of its use-value in the process of production, another is detached from the instrument of labor and becomes money. In the performance of its function, that part of the value of an instrument of labor which exists in its natural form constantly decreases, while that which is transformed into money constantly increases, until at last the instrument is exhausted and its entire value, detached from its body,

has assumed the form of money. Here the peculiarity in the turn-over of this element of productive capital becomes apparent. The transformation of its value into money keeps pace with the like transformation of the commodity which is its bearer. But its reconversion from the form of money into that of a use-value separates itself from the reconversion of the commodities into their other elements of production and is determined by its own period of reproduction, that is to say by the time during which the instrument of labor has worn out and must be replaced by another specimen of the same kind. If a machine lasts for, say, a period of ten years, then the period of turn-over of the value originally advanced for it amounts to ten years. It need not be replaced until this period has expired, and performs its function in this natural form until then. Its value circulates in the meantime piecemeal as a part of the value of the commodities which it turns out successively, and it is thus gradually transformed into money, until it has entirely assumed the form of money at the end of ten years and is reconverted from money into a machine, in other words, has completed its turn-over. Until this time arrives, its value is meanwhile accumulated in the form of a reserve fund of money.
II.VIII.17

The other elements of productive capital consist partly of those elements of constant capital which exist in auxiliary and raw materials, partly of variable capital which is invested in labor-power.

II.VIII.18

The analysis of the processes of labor and self-expansion (vol. I, chap. VII) showed that these different elements behave differently in their role of producers of commodities and values. The value of that part of constant capital which consists of auxiliary and raw materials‘ the same as of that part which consists of instruments of labor‘ reappears in the value of the product as transferred value, while labor-power actually adds the equivalent of its value to the product by means of the labor-process, in other words, actually reproduces its value. Furthermore, a part of the auxiliary material, fuel, gas, etc., is consumed in the process of labor without entering bodily into the product, while another part of them enters bodily into the product and forms a part of its substance. But all these differences are immaterial so far as the mode of circulation and turn-over is concerned. To the extent that auxiliary and raw materials are entirely consumed in the creation of the product, they transfer their value entirely to the product. Hence this value is entirely circulated by the product, transformed into money and from money back into the elements of production of the commodity. Its turn-over is not interrupted, as that of fixed capital is, but it rather passes uninterrupted through the entire cycle of its transformations, so that these elements of production are continually reproduced in substance.

II.VIII.19

As for the variable part of productive capital, which is invested in labor-power, it buys labor-power for a definite period of time. As soon as the capitalist has bought labor-power and embodied it in his process of production, it forms a component part of his capital, definitely speaking, the variable part of his capital. Labor-power performs its function daily during a period of time, in which it not only reproduces its own daily value, but also adds a surplus-value in excess of it to the product. We do not consider this surplus-value for the moment. After labor-power has been bought, say, for a week, and performed its function, its purchase must be continually renewed within the accustomed space of time. The equivalent of its value, which labor-power embodies in its product during its function and which is transformed into money by means of the circulation of the product, must be continually reconverted from money into labor-power, must continually pass through the complete cycle of its transformations, in other words, must be turned over, lest the continuous rotation of its production be interrupted.
II.VIII.20

That part of the value of capital, then, which has been advanced for labor-power, is entirely transferred to the product‘we still leave the question of surplus-value out of consideration‘passes with it through the two metamorphoses belonging to the circulation, and always remains in the process of production by means of this continual reproduction. Whatever may be the differences by which labor-power

is distinguished, so far as the formation of value is concerned, from those parts of constant capital which do not represent fixed capital, it nevertheless has this manner of turn-over in common with them, as compared to the fixed capital. It is these elements of productive capital‘the values invested in labor-power and in means of production which are not fixed capital‘that by their common characteristics of turn-over constitute the circulating capital as opposed to the fixed capital.
II.VIII.21

We have already stated that the money which the capitalist pays to the laborer for the use of his labor-power is but the form of the general equivalent for the means of subsistence required by the laborer. To this extent, the variable capital consists in substance of means of existence. But in this case, where we are discussing the turn-over, it is a question of form. The capitalist does not buy the means of the existence of the laborer, but his labor-power. And that which forms the variable part of capital is not the subsistence of the laborer, but his active labor-power. The capitalist consumes productively in the labor-process the labor-power of the laborer, not his means of existence. It is the laborer himself who converts the money received for his labor-power into means of subsistence, in order to reproduce his labor-power, to keep alive, just as the capitalist converts a part of the surplus-value realized by the sale of commodities into means of existence for himself, and yet would not

thereby justify the statement, that the purchaser of his commodities pays him with means of existence. Even if the laborer receives a part of his wages in the form of means of existence, this is still a second transaction in our days. He sells his labor-power at a certain price, with the understanding that he shall receive a part of this price in means of production. This changes merely the form of the payment, but not the fact that that which he actually sells is his labor-power. It is a second transaction, which does not take place between the parties in their capacity as laborer and capitalist, but on the part of the laborer as a buyer of commodities and on that of the capitalist as a seller of commodities; while in the first transaction, the laborer is a seller of a commodity (his labor-power) and the capitalist its buyer. It is the same with the capitalist who replaces his commodity by another, for instance when he takes iron for a machine which he sells to some iron-works. It is, therefore, not the means of subsistence of the laborer which determine the character of circulating capital as opposed to fixed capital. Nor is it his labor-power. It is rather that part of the value of productive capital which is invested in labor-power that receives this character in common with some other parts of constant capital by means of the manner of its turn-over. II.VIII.22

The value of the circulating capital‘invested in labor-power and means of production‘is advanced only for the time during which the product is in process of formation, in harmony with the scale of production

dependent on the volume of the fixed capital. This value enters entirely into the product, is therefore fully returned by the sale of the product in the circulation, and can be advanced anew. The labor-power and means of production carrying the circulating part of capital are withdrawn from the circulation to the extent that is required for the formation and sale of the finished product, but they must be continually replaced and reproduced by purchasing them back and reconverting them from money into elements of production. They are withdrawn from the market in smaller quantities at a time than the elements of fixed capital, but they must be withdrawn so much more frequently and the advance of capital invested in them must be repeated in shorter periods. This continual reproduction is promoted by the continuous conversion of the product which circulates the entire value of these elements. And finally, they pass through the entire cycle of metamorphoses, not only so far as their value is concerned, but also their material substance. They are continually reconverted from commodities into the elements of production of the same commodities.
II.VIII.23

Together with its value, labor-power always adds surplus-value to the product, and this surplus-value represents unpaid labor. This is just as continuously circulated by the finished product and converted into money as its other elements of value. But in this substance, where we are first concerned about the turn-over of capital-value, and not of

the surplus-value turned over at the same time, we dismiss the latter for the present.
II.VIII.24

From the foregoing, the following deductions are made:
II.VIII.25

1. The definite distinctions of the forms of fixed and circulating capital arise merely from the different turnovers of the capital-value employed in the process of production, the productive capital. This difference of turn-over arises in its turn from the different manner in which the various elements of productive capital transfer their value to the product; they are not due to the different participation of these elements in the production of value, nor to their characteristic role in the process of self-expansion. The difference in the transfer of value to the product-‘and therefore the different manner of circulating this value by means of the product and renewing it in its original material form by means of its metamorphoses‘arises from the difference of the material forms in which the productive capital exists, one portion of it being entirely consumed during the creation of the individual product, and another being used up gradually. Hence it is only the productive capital, which can be divided into fixed and circulating capital. But this distinction does not apply to the other two modes of existence of industrial capital, that is to say commodity-capital and money-capital, nor does it express the difference of these two capitals as compared

to productive capital. It applies only to productive capital and its internal processes. No matter how much money-capital and commodity-capital may perform the functions of capital and circulate, they cannot become circulating capital as distinguished from fixed capital, until they have been transformed into circulating elements of productive capital. But because these two forms of capital dwell in the circulation, the economists since the time of Adam Smith, as we shall presently see, have been misled into confounding them with the circulating parts of productive capital under the head of circulating capital. Money-capital and commodity-capital are indeed circulation capital as distinguished from productive capital, but they are not circulating capital as opposed to fixed capital.
II.VIII.26

2. The turn-over of the fixed part of capital and therefore also its time of turn-over, comprises several turn-overs of the circulating parts of capital. In the same tine, in which the fixed capital turns over once, the circulating capital turns over several times. One of the component parts of the value of productive capital acquires the definite form of fixed capital only in the case that the instrument of production in which it is embodied is not worn out in the time required for the finishing of the product and its removal from the process of production as a commodity. One part of its value must remain tied up in the form of the old use-value, while another part is circulated by the finished product, and this circulation simultaneously

carries with it the entire value of the circulating parts of productive capital.
II.VIII.27

3. The value invested in the fixed part of productive capital is advanced in a lump-sum for the entire period of employment of that part of the instrument of labor which constitutes the fixed capital. Hence this value is thrown into the circulation by the capitalist all at one time. But it is withdrawn from the circulation only in portions corresponding to the degree in which those values are realized which the fixed capital yields successively to the commodities. On the other hand, the means of production themselves, in which a portion of the productive capital becomes fixed, are withdrawn from the circulation in one bulk and embodied in the process of circulation for the entire period which they last. But they do not require reproduction, they need not be replaced by new specimens of the same kind, until this time is gone by. They continue for a shorter or longer period to contribute to the creation of the commodities to be thrown into circulation, without withdrawing from circulation the elements of their own reproduction. Hence they do not require from the capitalist a renewal of his advances during this period. Finally, the capital-value invested in fixed capital passes through the cycle of its transformations, not in its bodily substance, but only with its ideal value, and even this it does only in successive portions and gradually. In other words, a portion of its value is continually circulated and

converted into money as a part of the value of the commodities, without reconverting itself from money into its original bodily form. This reconversion of money into the natural form of an instrument of labor does not take place until at the end of its period of usefulness, when the instrument has been completely worn out.
II.VIII.28

4. The elements of circulating capital are as continually engaged in the process of production‘provided it is to be uninterrupted‘as the elements of fixed capital. But the elements of circulating capital held in this condition are continually reproduced in their natural form (the instruments of production by other specimens of the same kind, and labor-power by renewed purchases) while in the case of the elements of fixed capital, neither the substance has to be renewed during their employment, nor the purchases. There are always raw and auxiliary materials in the process of production, but always new specimens of the same kind, whenever the old elements have been consumed in the creation of the finished product. Labor-power is likewise always in the process of production, but only by means of ever new purchases, and frequently with changed individuals. But the same identical buildings, machinery, etc., continue their function during repeated turn-overs of the circulating capital in the same repeated processes of production.

II. Composition, Reproduction, Repair, and Accumulation of Fixed Capital.

II.VIII.29

In the same investment of capital, the individual elements of fixed capital have a different life-time, and therefore different periods of turn-over. In a railroad, for instance, the rails, ties, earthworks, station-buildings, bridges, tunnels, locomotives, and carriages have different periods of wear and of reproduction, hence the capital advanced for them has different periods of turn-over. For a long term of years, the buildings, platforms, water tanks, viaducts, tunnels, excavations, dams, in short everything called "works of art" in English railroading, do not require any reproduction. The things which wear out most are the rails, ties, and rolling stock.

II.VIII.30

Originally, in the construction of modern railways, it was the current opinion, nursed by the most prominent practical engineers, that a railroad would last a century and that the wear and tear of the rails was so imperceptible, that it could be ignored for all financial and practical purposes; from 100 to 150 years was supposed to be the life-time of good rails. But it was soon learned that the life-time of a rail, which naturally depends on the velocity of the locomotives, the weight and number of trains, the diameter of the rails themselves,

and on a multitude of other minor circumstances, did not exceed an average of 20 years. In some railway-stations, which are centers of great traffic, the rails even wear out every year. About 1867, the introduction of steel rails began, which cost about twice as much as iron rails but which on the other hand last more than twice as long. The life-time of wooden ties was from 12 to 15 years. It was also found, that freight cars wear out faster then passenger cars. The life-time of a locomotive was calculated in 1867 at about 10 to 12 years.
II.VIII.31

The wear and tear is first of all a result of usage. As a rule, the rails wear out in proportion to the number of trains. (R.C. No. 17,645,)*27 If the speed was increased, the wear and tear increased faster in proportion than the square of the velocity, that is to say, if the speed of the trains increased twofold, the wear and tear increased more than fourfold. (R. C. No. 17,046.)
II.VIII.32

Wear and tear are furthermore caused by the influence of natural forces. For instance, the ties do not only suffer from actual wear, but also from mold. The cost of maintenance does not depend so much on the wear and tear incidental to the railway traffic, as on the quality of the wood, the iron, the masonry, which are exposed to the weather. One single month of hand winter will injure the track more than a whole year of traffic. (R. P. Williams, On the Maintenance of

Permanent Way. Lecture given at the Institute of Civil Engineers, Autumn, 1867.)
II.VIII.33

Finally, here as everywhere else in great industry, the virtual wear and tear plays a role. After the lapse of ten years, one can generally buy the same quantity of cars and locomotives for 30,000 pounds sterling, which would have coat 40,000 pounds sterling at the beginning of that time. Thus one must calculate on a depreciation of 25 per cent on the market price of this material, even though no depreciation of its use-values taken place. (Lardner, Railway Economy.)
II.VIII.34

Tubular bridges in their present form will not be renewed, writes W. P. Adams in his "Roads and Rails," London, 1862. Ordinary repairs of them, removal and replacing of single parts, are not practicable. (There are now better forms for such bridges.) The instruments of labor are largely modified by the constant progress of industry. Hence they are not replaced in their original, but in their modified form. On the one hand, the quantity of the fixed capital invested in a certain natural form and endowed with a certain average vitality in that form constitutes one reason for the gradual pace of the introduction of new machinery, etc., and therefore an obstacle to the rapid general introduction of improved instruments of labor. On the other hand, competition enforces the introduction of new machinery before the old

is worn out, especially in the case of important modifications. Such a premature reproduction of the instruments of labor on a large social scale is generally enforced by catastrophes or crises.
II.VIII.35

By wear and tear (excepting the so-called virtual wear) is meant that part of value which is yielded gradually by the fixed capital to the product in course of creation in proportion to the average degree in which it loses its use-value.
II.VIII.36

This wear and tear takes place partly in such a way that the fixed capital has a certain average life-time. It is advanced for this entire period in one sum. After the lapse of this period, it must be replaced. So far as living instruments of labor are concerned, for instance horses, their reproduction is timed by nature itself. Their average lifetime as means of production is determined by laws of nature. As soon as this term has expired, the worn-out specimens must be replaced by new ones. A horse cannot be replaced piecemeal, it must be replaced by another horse.
II.VIII.37

Other elements of fixed capital permit of a periodical or partial renewal. In this instance, the partial or periodical renewal must be distinguished from the gradual extension of the business.

II.VIII.38

The fixed capital consists in part of homogeneous elements, which do not, however, last the same length of time, but are renewed from time to time and piecemeal. This is true, for instance, of the rails in railway stations, which must be replaced more frequently than those of the remainder of the track. It also applies to the ties, which for instance on the Belgian railroads in the fifties had to be renewed at the rate of 8 per cent, according to Lardner, so that all the ties were renewed in the course of 12 years. Hence we have here the following proposition: A certain sum is advanced for a certain kind of fixed capital for, say, ten years. This expenditure is made at one time. But a certain part of this fixed capital, the value of which has been transferred to the value of the product and converted with it into money, is bodily renewed every year, while the remainder persists in its original natural form. It is this advance in one sum and the reproduction in natural form by small degrees, which distinguishes this capital in the role of fixed from circulating capital.

II.VIII.39

Other parts of the fixed capital consist of heterogeneous elements, which wear out in unequal periods of time and must be so replaced. This applies particularly to machines. What we have just said concerning the different life-times of different parts of fixed capital

applies in this case to the life-time of different parts of the same machine, which performs a part of the function of this fixed capital. II.VIII.40

With regard to the gradual extension of the business in the course of the partial renewal, we make the following remarks: Although we have seen that the fixed capital continues to perform its functions in the process of production in its natural state, a certain part of its value, proportionate to the average wear and tear, has circulated with the product, has been converted into money, and forms an element in the money reserve fund intended for the renewal of the capital pending its reproduction in the natural form. This part of the value of fixed capital transformed into money may serve to extend the business or to make improvements in machinery with a view to increasing the efficiency of the latter. Thus reproduction takes place in larger or smaller periods of time, and this is, from the standpoint of society, reproduction on an enlarged scale. It is extensive expansion, if the field of production is extended; it is intensive expansion, if the efficiency of the instruments of production is increased. This reproduction on an enlarged scale does not result from accumulation‘ not from the transformation of surplus-value into capital‘but from the reconversion of the value which has detached itself in the form of money from the body of the fixed capital and has resumed the form of additional, or at least of more efficient, fixed capital of the same kind. Of course, it depends partly on the specific nature of the

business, to what extent and in what proportion it is capable of such expansion, and to what amount, therefore, a reserve-fund must be collected, in order to be invested for this purpose; also, what period of time is required, before this can be done. To what extent, furthermore, improvements in the details of existing machinery can be made, depends, of course, on the nature of these improvements and the construction of the machine itself. That this is well considered from the very outset in the construction of railroads, is apparent from a statement of Adams to the effect that the entire construction should follow the principle of a beehive, that is to say, it should have a faculty for unlimited expansion. All oversolid and preconceived symmetrical structures are impracticable, because they must be torn down in the case of an extension. (Page 123 of the above-named work).

II.VIII.41

This depends largely on the available space. In the case of some buildings, additional stories may be built, in the case of others lateral extension and more land are required. Within capitalist production, there is on one side much waste of wealth, on the other much impractical lateral extension of this sort (frequently to the injury of labor-power) in the expansion of the business, because nothing is under-taken according to social plans, but everything depends on the infinitely different conditions, means, etc., with which the individual

capitalist operates. This results in a great waste of the productive forces.
II.VIII.42

This piecemeal re-investment of the money-reserve fund, that is to say of that part of fixed capital which has been reconverted into money, is easiest in agriculture. A field of production of a given space is capable of the greatest possible absorption of capital. The same applies also to natural reproduction, for instance to stock raising.
II.VIII.43

The fixed capital requires special expenditures for its conservation. A part of this conservation is provided by the labor-process itself; the fixed capital spoils, if it is not employed in production. (See vol. I, chap. VIII; and chap. XV, on wear and tear of machinery when not in use.) The English law therefore explicitly regards it as a waste, if rented land is not used according to the custom of the country. (W. A. Holdsworth, barrister at law. "The Law of Landlord and Tenant." London, 1857, p. 96.) The conservation due to use in the labor-process is a natural and free gift of living labor. And the conservating power of labor is of a twofold character. On the one hand, is preserves the value of the materials of labor, by transferring it to the product, on the other hand it preserves the value of the instruments of labor, provided it does not transfer this value in part to the

product, by preserving their use-value by means of their activity in the process of production.
II.VIII.44

The fixed capital requires also a positive expenditure of labor for its conservation. The machinery must be cleaned from time to time. This is additional labor, without which the machinery would become useless; it is labor required to ward off the injurious influences of the elements, which are inseparable from the process of production; it is expended for the purpose of keeping the machinery in perfect working order. The normal life-time of fixed capital is, of course, so calculated that all the conditions are fulfilled under which it can perform its functions normally during that time, just as we assume in placing a man's average life at 30 years that he will wash himself. Nor is it here a question of reproducing the labor contained in the machine, but of labor which must be constantly added in order to keep it in working order. It is not a question of the labor performed by the machine itself, but of labor spent on it in its capacity of raw material, not of an instrument of production. The capital expended for this labor belongs to the circulating capital, although it does not enter into the actual labor-process to which the product owes its existence. This labor must be continually expended in production, hence its value must be continually replaced by that of the product. The capital invested in it belongs to that part of circulating capital, which has to cover the general expenses and is distributed over the produced

values according to an annual average. We have seen that in industry, properly so-called, this labor of cleaning is performed gratis by the working men during pauses, and thus frequently during the process of production itself, and many accidents are due to this custom. This labor is not counted in the price of the product. The consumer receives it free of charge to this extent. On the other hand, the capitalist thus receives the conservation of his machinery for nothing. The laborer pays this expense in his own person, and this is one of the mysteries of the self preservation of capital, which constitute in point of fact a legal claim of the laborer on the machinery, on the strength of which he is a part-owner of the machine even from the legal standpoint of the bourgeoisie. However, in various branches of production, in which the machinery must be taken out of the process of production for the purpose of cleaning, and where this labor of cleaning cannot be performed between pauses, for instance in the case of locomotives, this labor of conservation counts with the running expenses and is therefore an element of circulating capital. A locomotive must be taken to the shop after a maximum of three days' work in order to be cleaned; the boiler must cool off before it can be washed out without injury. (R. C. No. 17,823.)
II.VIII.45

The actual repairs, the small jobs, require expenditures of capital and labor, which are not contained in the originally advanced capital and cannot therefore be reproduced and covered, in the majority of cases,

by the gradual replacement of the value of fixed capital. For instance, if the value of the fixed capital is 10,000 pounds sterling, and its total life-time 10 years, then these 10,000 pounds, having been entirely converted into money after the lapse of ten years, will replace only the value of the capital originally invested, but they do not replace the value of the capital, or labor, added in the meantime for repairs. This is an element of additional value which is not advanced all at one time, but rather whenever occasion arises for it, so that the terms of its various advances are accidental from the very nature of the conditions. All fixed capital demands such additional and occasional expenditures of capital for materials of labor and labor-power. II.VIII.46

The injuries to which individual parts of the machinery are exposed are naturally accidental, and so are therefore the necessary repairs. Nevertheless two kinds of repairs are to be distinguished in the general mass, which have a more or less fixed character and fall within various periods of life of the fixed capital. These are the diseases of childhood and the far more numerous diseases in the period following the prime of life. A machine, for instance, may be placed in the process of production in ever so perfect a condition, still the actual work will always reveal shortcomings which must be remedied by additional labor. On the other hand, the more a machine passes beyond the prime of life, when, therefore, the normal wear and tear has accumulated and has rendered its material worn and

weak, the more numerous and considerable will be the repairs required to keep it in order for the remainder of its average life-time; it is the same with an old man, who needs more medical care to keep from dying than a young and strong man. In spite of its accidental character, the labor of repairing is therefore unequally distributed over the various periods of life of fixed capital.
II.VIII.47

From the foregoing, and from the otherwise accidental character of the labor of repairing, we make the following deductions.
II.VIII.48

In one respect, the actual expenditure of labor-power and labor-material for repairs is an accidental as the conditions which cause these repairs; the amount of the necessary repairs is differently distributed over the various life-periods of fixed capital. In other respects, it is taken for granted in the calculation of the average life of fixed capital that it is constantly kept in good working order, partly by cleaning (including the cleaning of the rooms), partly by repairs such as the occasion may require. The transfer of value through wear and tear of fixed capital is calculated on its average life, but this average life itself is based on the assumption that the additional capital required for keeping machine in order is continually advanced.
II.VIII.49

On the other hand it is also evident that the value added by this extra expenditure of capital and labor cannot be transferred to the price of the products simultaneously as it is made. For instance, a manufacturer of yarn cannot sell his yarn dearer this week than last, merely because one of his machines broke a wheel or tore a belt this week. The general expenses of the spinning industry have not been changed by this accident in some individual factory. Here as in all determinations of value, the average decides. Experience teaches the average extent of such accidents and of the necessary labors of conservation and repair during the average life-time of the fixed capital invested in a given branch of industry. This average expense is distributed over the average life-time. It is added to the price of the product in corresponding aliquot parts and hence also reproduced by means of its sale.
II.VIII.50

The extra capital which is thus reproduced belongs to the circulating capital, although the manner of its expenditure is irregular. As it is highly important to remedy every injury to a machine immediately, every large factory employs in addition to the regular factory hands a number of other employees, such as engineers, wood-workers, mechanics, smiths, etc. The wages of these special employees are a part of the variable capital, and the value of their labor is distributed over their product. On the other hand, the expenses for means of production are calculated on the basis of the above-mentioned

average, according to which they form continually a part of the value of the product, although they are actually advanced in irregular periods and therefore transferred in irregular periods to the product or the fixed capital. This capital, invested in regular repairs, is in many respects a peculiar capital, which can be classed neither with the circulating nor the fixed capital, but still belongs with more justification to the former, since it is a part of the running expenses.
II.VIII.51

The manner of bookkeeping does not, of course, change in any way the actual condition of the things of which an account is kept. But it is important to note that it is the custom of many businesses to class the expenses of repairing with the actual wear and tear of the fixed capital, in the following manner: Take it that the advanced fixed capital is 10,000 pounds sterling, its life-time 15 years; the annual wear and tear 666 and 2/3 pounds sterling. But the wear and tear is calculated at only ten years, in other words, 1,000 pounds sterling are added annually for wear and tear of the fixed capital to the prices of the produced commodities, instead of 666 and 2/3 pounds sterling. Thus 333 and 1/3 pounds sterling are reserved for repairs, etc. (The figures 10 and 15 are chosen at random.) This amount is spent on an average for repairs, in order that the fixed capital may last 15 years. This calculation does not alter the fact that the fixed capital and the additional capital invested in repairs belong to different categories. On the strength of this mode of calculation it was, for instance, assumed

that the lowest estimate for the conservation and reproduction of steamship was 15 per cent, the time of reproduction therefore equal to 6 2/3 years. In the sixties, the English government indemnified the Peninsular and Oriental Co. for it at the rate of 16 per cent, making the time of reproduction equal to 6 1/3 years. On railroads, the average life-time of a locomotive is 10 years, but the wear and tear including repairs is assumed to be 12½ per cent, reducing the life-time down to 8 years. In the case of passenger and freight cars, 9 per cent are estimated, or a life-time of 11 1/9 years.
II.VIII.52

Legislation has everywhere made a distinction, in the leases of houses and other things, which represent fixed capital for their owners, between the normal wear and tear which is the result of time, the influence of the elements, and normal use and between those occasional repairs which are required for keeping up the normal life-time of the house during its normal use. As a rule, the former expenses are borne by the owner, the latter by the tenant. The repairs are further distinguished as ordinary and substantial. The last-named are partly a renewal of the fixed capital in its natural form, and they fall likewise on the shoulders of the owner, unless the lease explicitly states the contrary. For instance, the English law, according to Holdsworth (Law of Landlord and Tenant, pages 90 and 91), prescribes that a tenant from year to year is merely obliged to keep the buildings water-and-wind proof, so long as this is possible without

substantial repairs, and to attend only to such repairs as are known as ordinary. And even in this respect the age and the general condition of the building at the time when the tenant took possession must be considered, for he is not obliged to replace either old or worn-out material by new, or to make up for the inevitable depreciation incidental to the lapse of time and normal usage.
II.VIII.53

Entirely different from the reproduction of wear and tear and from the work of preserving and repairing is the insurance, which relates to destruction caused by extraordinary phenomena of nature, fire, flood, etc. This must be made good out of the surplus-value and is a deduction from it. Or, considered from the point of view of the entire society, there must be a continuous overproduction, that is to say, a production on a larger scale than is necessary for the simple replacement and reproduction of the existing wealth, quite apart from an increase of the population, in order to be able to dispose of the means of production required for making good the extraordinary destruction caused by accidents and natural forces.
II.VIII.54

In point of fact, only the smallest part of the capital needed for making good such destruction consists of the money-reserve fund. The most important part consists in the extension of the scale of production itself, which is either actual expansion, or a part of the

normal scope of the branches of production which manufacture the fixed capital. For instance, a machine factory is managed with a view to the fact that on the one side the factories of its customers are annually extended, and that on the other hand a number of them will always stand in need of total or partial reproduction.
II.VIII.55

In the determination of the wear and tear and of the cost of repairing, according to the social average, there are necessarily great discrepancies, even for investments of capital of equal size and in equal conditions, in the same branch of production. In practice, a machine lasts in the case of one capitalist longer than its average time, while in the case of another it does not last so long. The expenses of the one for repairs are above, of the other below the average, etc. But the addition to the price of the commodities resulting from wear and tear and from repairs is the same and is determined by the average. The one therefore gets more out of this additional price than he really spent, the other less. This as well as other circumstances which produce different gains for different capitalists in the same branch of industry with the same degree of the exploitation of labor-power renders an understanding of the true nature of surplus-value difficult.
II.VIII.56

The boundary between regular repairs and replacement, between expenses of repairing and expenses of renewal, is more or less shifting. Hence we see the continual dispute, for instance in railroading, whether certain expenses are for repairs or for reproduction, whether they must be paid from running expenses or from the capital itself. A transfer of expenses for repairs to capital-account instead of revenue-account is the familiar method by which railway managements artificially inflate their dividends. However, experience has already furnished the most important clues for this. According to Lardner, page 49 of the previously quoted work, the additional labor required during the first period of life of a railroad is not counted under the head of repairs, but must be regarded as an essential factor of railway construction, and is to be charged, therefore, to the account of capital, since it is not due to wear and tear or to the normal effect of the traffic, but to the original and inevitable imperfection of railway construction. On the other hand, it is the only correct method, according to Captain Fitzamaurice (Committee of Inquiry of Caledonian Railway, published in Money Market Review, 1867), to charge the revenue of each year with the depreciation, which is the necessary concomitant of the transactions by which this revenue has been earned, regardless of whether this sum has been spent or not.

II.VIII.57

The separation of the reproduction and conservation of fixed capital becomes practically impossible and useless in agriculture, at least in so far as it does not operate with steam. According to Kirchhoff (Handbuch der landwirthschaftlichen Betriebslehre, Berlin, 1862, page 137), "it is the custom to estimate on a general average the annual wear and tear and conservation of the implements, according to the differences of existing conditions, at from 15 to 20 per cent of the purchasing capital, wherever there is a complete, though not excessive, supply of implements on the farm."
II.VIII.58

In the case of the rolling stock of a railroad, repairs and reproduction cannot be separated. According to T. Gooch, Chairman of the Great Western Railway Co. (R. C. No. 17, 327-29), his company maintained its rolling stock numerically. Whatever number of locomotives they might have would be maintained. If one of them became worn out in the course of time, so that it was more profitable to build a new one, it was built at the expense of the revenue, in which case the value of the material remaining from the old locomotive was credited to the revenue. There always was a good deal of material left. The wheels, the axles, the boilers, in short, a good part of the old locomotive remained.
II.VIII.59

"To repair means of renew; for me there is no such word as 'replacement';...once that a railway company has bought a car or a locomotive, they ought to keep them in such repair that they will run for all eternity (17,784). We calculate 8½ d. per English freight mile for locomotive expenses. Out of this 8½ d. we maintain the locomotives forever. We renew our machines. If you want to buy a machine new, you spend more money than is necessary.... You can always find a few wheels, an axle, or some other part of an old machine in condition to be used, and that helps to construct cheaply a machine which is just as good as an entirely new one (17,790). I now produce every week one new locomotive, that is to say, one that is as good as new, for its boiler, cylinder, and frame are new." (17,843.) Archibald Sturrock, locomotive superintendent of Great Northern Railway, in R. C., 1867.
II.VIII.60

Lardner says likewise about cars, on page 116 of his work, that in the course of time, the supply of locomotives and cars is continually renewed; at one time new wheels are put on, at another a new frame is constructed. Those parts on which the motion is conditioned and which are most exposed to wear and tear are gradually renewed; the machines and cars may then undergo so many repairs that not a trace of the old material remains in them.... Even if the old cars and locomotives get so that they cannot be repaired any more, pieces of them are still worked into others, so that they never disappear wholly

form the track. The rolling stock is therefore in process of continuous reproduction; that which must be done at one time for the track, takes place for the rolling stock gradually, from year to year. Its existence is perennial, it is in process of continuous rejuvenation.
II.VIII.61

This process, which Lardner here describes relative to a railroad, is not typical for an individual factory, but may serve as an illustration of continuous and partial reproduction of fixed capital intermingled with repairs, within an entire branch of production, or even within the aggregate production considered on a social scale.
II.VIII.62

Here is a proof, to what extent clever managers may manipulate the terms repairs and replacement for the purpose of making dividends. According to the above quoted lecture of R. B. Williams, various English railway companies deducted the following sums from the revenue-account, as averages of a period of years, for repairs and maintenance of the track and buildings, per English mile of track per year:

London & North Western... £370
Midland... £225
London & South Western... £257
Great Northern... £360

Lancashire & Yorkshire... £377
South Eastern... £263
Brighton... £266
Manchester & Sheffield... £200
II.VIII.63

These differences arise only to a minor degree from differences in the actual expenses; they are due almost exclusively to different modes of calculation, according to whether expenses are charged to the account of capital or revenue. Williams says in so many words that the lesser charge is made, because this is necessary for a good dividend, and a high charge is made, because there is a greater revenue which can bear it.
II.VIII.64

In certain cases, the wear and tear, and therefore its replacement, is practically infinitesimal, so that nothing but expenses for repairs have to be charged. The statements of Lardner relative to works of art, which are given in substance below, also apply in general to all solid works, docks, canals, iron and stone bridges, etc. According to him, pages 38 and 39 of his work, the wear and tear which is the result of the influence of long periods of time on solid works, is almost imperceptible in short spaces of time; after the lapse of a long period, for instance of centuries, such influences will nevertheless require the partial or total renewal of even the most solid structures. This

imperceptible wear and tear, compared to the more perceptible in other parts of the railroad, may be likened to the secular and periodical inequalities in the motions of world-bodies. The influence of time on the more massive structures of a railroad, such as bridges, tunnels, viaducts, etc., furnishes illustrations of that which might be called secular wear and tear. The more rapid and perceptible depreciation, which is compensated by repairs in shorter periods, is analogous to the periodical inequalities. The compensation of the accidental damages, such as the outer surface of even the most solid structures will suffer from time to time, is likewise included in the annual expenses for repairs; but apart from these repairs, age does not pass by such structures without leaving its marks, and the time must inevitably come, when their condition will require a new structure. From a financial and economic point of view, this time may indeed be too far off to be taken into practical consideration.
II.VIII.65

These statements of Lardner apply to all similar structures of a secular duration, in the case of which the capital advanced for them need not be reproduced according to their gradual wear and tear, but only the annual average expenses of conservation and repairs are to be transferred to the prices of the products.
II.VIII.66

Although, as we have seen, a greater part of the money returning for the compensation of the wear and tear of the fixed capital is annually, or even in shorter periods, reconverted into its natural form, nevertheless every capitalist requires a sinking fund for that part of his fixed capital, which becomes mature for complete reproduction only after the lapse of years and must then be entirely replaced. A considerable part of the fixed capital precludes gradual production by its composition. Besides, in cases where the reproduction takes place piecemeal in such a way that every now and then new pieces are added in compensation for worn-out ones, a previous accumulation of money is necessary to a greater or smaller degree, according to the specific character of the branch of production, before replacement can proceed. It is not any arbitrary sum of money which suffices for this purpose; a sum of a definite size is required for it.
II.VIII.67

If we study this question merely on the assumption that we have to deal with the simple circulation of commodities, without regard to the credit system, which we shall treat later, then the mechanism of this movement has the following aspect: We showed in Volume I, chapter III, 3a, that the proportion in which the total mass of money is distributed over a hoard and means of production varies continually, if one part of the money available in society lies fallow as a hoard, while another performs the functions of a medium of circulation or of an immediate reserve-fund of the directly circulating money. Now, in

the present case, the money accumulated in the hands of a great capitalist in the form of a large-sized hoard is set free all at once in circulation for the purchase of mixed capital. It is on its part again distributed over the society as medium of circulation and hoard. By means of the sinking fund, through which the value of the fixed capital flows back to its starting point in proportion to its wear and tear, a part of the circulating money forms again a hoard, for a longer or shorter period, in the hands of the same capitalist whose hoard had been transformed into a medium of circulation and passed away from him by the purchase of fixed capital. It is a continually changing distribution of the hoard existing in society, which performs alternately the function of a medium of exchange and is again separated as a hoard from the mass of the circulating money. With the development of the credit-system, which necessarily runs parallel with the development of great industries and capitalist production, this money no longer serves as a hoard, but as capital, not in the hands of its owner, but of other capitalists who have borrowed it.

Notes for this chapter

25.
On account of the difficulty of determining what constitutes the distinguishing mark of fixed and circulating capital, Mr. Lorenz Stein thinks that this distinction is suitable only for lighter study.
26.

End of Manuscript IV, beginning of Manuscript II.

27.

The quotations market R. C. are from the work: Royal Commission of Railways. Minutes of Evidence taken before the commissioners. Presented to both house of Parliament, London, 1867. The questions and answers are numbered, as indicated above.

Part II,

Volume II Chapter IX THE TOTAL TURN-OVER OF ADVANCED CAPITAL.

CYCLES OF TURN-OVER.

II.IX.1

We have seen that the fixed and circulating parts of productive capital turn over in different ways and at different periods, also that the different constituents of the fixed capital of the same business have different periods of turn-over according to their different durations of life and, therefore, of their different periods of reproduction. (As concerns the actual or apparent difference in the turn-over of different constituents of circulating capital in the same business, see the close of this chapter, under No. 6.)

II.IX.2

1. The total turn-over of advanced capital is the average turn-over of its constituent parts; the mode of its calculation is given later. Inasmuch as it is merely a question of different periods of time, nothing is easier than to compute their average. But
II.IX.3

2. It is a question, not alone of a quantitative, but also of a qualitative difference.
II.IX.4

The circulating capital entering into the process of production transfers its entire value to the product and must, therefore, be continually reproduced in its natural form by the sale of the product, if the process or production is to proceed without interruption. The fixed capital entering into the process of production transfers only a part of its value (the wear and tear) to the product and continues despite this wear and tear, to perform its function in the process of production. Therefore it need not be reproduced until after the lapse of intervals of various duration, at any rate not as frequently as the circulating capital. This necessity of reproduction, this term of reproduction, is not only quantitatively different for the various constituent parts of fixed capital, but, as we have seen, a part of the perennial fixed capital may be replaced annually or at shorter intervals and added in natural form to the old fixed capital. In the case of

fixed capital of a different composition, the reproduction can take place only all at once at the end of its life-time.
II.IX.5

It is, therefore, necessary to reduce the specific turn-overs of the various parts of fixed capital to a homogeneous form of turn-over, so that they remain only quantitatively different so far as the duration of their turn-over is concerned.
II.IX.6

This quantitative homogeneity does not materialize, if we take for our starting point P...P, the form of the continuous process of production. For definite elements of P must be continually reproduced in their natural form, while others need not to be. This homogeneity of turn-over is found, however, in the form M‘M'. Take, for instance, a machine valued at 10,000 pounds sterling, which lasts ten years and one tenth, or 1,000 pounds of which are annually reconverted into money. These 10,000 pounds have been converted in the course of one year from money-capital into productive capital and commodity-capital, and then reconverted into money-capital. They have returned to their original money-form, just as did the circulating capital, if we study it from this point of view, and it is immaterial whether this money-capital of 1,000 pounds sterling is once more converted, at the end of the year, into the natural form of a machine or not. In calculating the total turn-over of the advanced productive capital, we,

therefore, fix all its elements in the mold of money, so that the return to the money-form concludes the turn-over. We assume that value has always been advanced in money, even in the continuous process of production, where this money-form of value exists only as calculating money. Then we are enabled to compute the average.
II.IX.7

3. It follows that the capital-value turned over during one year may be larger than the total value of the advanced capital, on account of the repeated turn-overs of the circulating capital within the same year, even if by far the greater part of the advanced productive capital consists of fixed capital, whose period of reproduction, and therefore of turn-over, comprises a cycle of several years.
II.IX.8

Take it that the fixed capital is 80,000 pounds sterling, its period of reproduction 10 years, so that 8,000 pounds of this capital annually return to their money-form, or complete one-tenth of its turn-over. Let the circulating capital be 20,000 pounds sterling, and its period of turn-over be five times per year. The total capital would then be 100,000 pounds sterling. The turned over fixed capital is 8,000 pounds, the turned-over circulating capital five times 20,000, or 100,000 pounds sterling. Then the capital turned over during one year is 108,000 pounds sterling, or 8,000 pounds more than the advanced capital. 1+2.25 of the capital have turned over.

II.IX.9

4. The turn-over of the values of the advanced capital therefore is to be distinguished from its actual time of reproduction, or from the actual time of turn-over of its component parts. Take, for instance, a capital of 4,000 pounds sterling and let it turn over five times per year. The turned over capital is then five times 4,000, or 20,000 pounds sterling. But that which returns at the end of its turn-over and is advanced anew is the original capital of 4,000 pounds sterling. Its magnitude is not changed by the number of its periods of turn-over, during which it performs anew its functions as capital. (We do not consider the question of surplus-value here.)

II.IX.10

In the illustration under No. 3, then, the sums returned at the end of one year into the hands of the capitalist are (a) a sum of values in the form of 20,000 pounds sterling, which he invests again in the circulating parts of the capital, and (b) a sum of 8,000 pounds, which have been set free by wear and tear from the advanced fixed capital; at the same time, this same fixed capital remains in the process of production, but with the reduced value of 72,000 pounds, instead of 80,000 pounds sterling. The process of production, therefore, would have to be continued for nine years longer, before the advanced fixed capital would have outlived its term and ceased to perform any service as a creator of products and values, so that it would have to

be replaced. The advanced capital-value, then, has to pass through a cycle of turn-overs, in the present case a cycle of ten years, and this cycle is determined by the life-time, in other words by the period of reproduction, or turn-over of the invested fixed capital.
II.IX.11

To the same extent that the volume of the value and the duration of the fixed capital develop with the evolution of the capitalist mode of production, does the life of industry and of industrial capital develop in each particular investment into one of many years, say of ten years on an average. If the development of fixed capital extends the length of this life on one side, it is on the other side shortened by the continuous revolution of the instruments of production, which likewise increases incessantly with the development of capitalist production. This implies a change in the instruments of production and the necessity of continuous replacement on account of virtual wear and tear, long before they are worn out physically. One may assume that this life-cycle, in the essential branches of great industry, now averages ten years. However, it is not a question of any one definite number here. So much at least is evident that this cycle comprising a number of years, through which capital is compelled to pass by its fixed part, furnishes a material basis for the periodical commercial crises in which business goes through successive periods of lassitude, average activity, overspeeding, and crisis. It is true that the periods in which capital is invested are different in time and place. But a crisis is

always the starting point of a large amount of new investments. Therefore it also constitutes, from the point of view of society, more or less of a new material basis for the next cycle of turn-over.*28 II.IX.12

5. On the mode of calculation of the turn-overs, Scrope, an American economist, says in substance the following in his work on political economy (published by Alonzo Potter, New York, 1841, pages 141 and 142): In some lines of business the entire capital advanced is turned over, or circulated, several times inside of a year. In some others, one portion is turned over more than once a year, another portion not so often. It is the average period required by the entire capital for the purpose of passing through the hands of the capitalist, or in order to turn over once, which must furnish the basis on which the capitalist figures his profits. Take it, that a certain individual engaged in a certain business has invested half of his capital for buildings and machinery, which are replaced once in every ten years; one-quarter for tools, etc., which are replaced in two years; and the last quarter, invested in wages and raw materials, which quarter is turned over twice per year. Let his entire capital be $50,000. Then his annual expenditure will be:

50,000-2, or $25,000 in 10 years, or $2,500 in one year.
50,000-4, or $12,500 in 2 years, or $6,250 in one year.
50,000-4, or $12,500 in ½ year, or $25,000 in one year.

$33,750 in one year.
II.IX.13

The average time, then, in which his capital is turned over once, is 16 months. Take another case: One quarter of the entire capital of $50,000 circulates in 10 years; another quarter in one year; the other half twice in one year. The annual expenditure will then be:

12,500-10… 1,250
12,500… 12,500
25,000×2… 50,000
Turned over in one year… 63,750
II.IX.14

6. Real and apparent differences in the turn-over of the various component parts of capital. Scrope also says in the same place that the capital invested by a manufacturer, landlord, or merchant in wages circulates most rapidly, as it is probably turned over once a week, if he pays his laborers weekly, by the weekly receipts from his sales or from paid bills. The capital invested in raw materials and finished supplies does not circulate so fast; it may be turned over two or four times per year, according to the time passing between the purchase of the one and the sale of the other, provided that the capitalist buys and sells on equal terms of credit. The capital invested in tools and machinery circulates still more slowly, as it is turned over, that is to

say consumed and circulated, probably on an average of once in five or ten years; many tools, however, are used up in one single series of manipulations. The capital invested in buildings, for instance, in factories, stores, storerooms, barns, streets, irrigation works, etc., circulates almost imperceptibly. But of course these structures are likewise worn out just the same as the others, so long as they serve in production, and must be replaced, in order that the producer may be able to continue his operations. They are merely consumed and reproduced more slowly than the others. The capital invested in them is probably turned over in twenty or fifty years. So far Scrope.‘ II.IX.15

Scrope here confounds the differences in the flow of certain parts of the circulating capital, caused by terms of payment and conditions of credit so far as the individual capitalist is concerned, with the turn-overs due to the nature of capital. He says that wages are paid weekly on account of the weekly receipts from paid sales or bills. We must note in the first place, that certain differences occur relative to wages, according to the length of the term of payment, that is to say the length of time for which the laborer must give credit to the capitalist, whether it be a week, a month, three months, six months, etc., In this case, the rule stated in volume I, chapter III, 3b, page 158, holds good, to the effect that "the quantity of the means of payment required for all periodical payments (in this case the quantity

of the money-capital to be advanced at one time) is in inverse proportion to the length of their periods."
II.IX.16

In the second place, it is only the entire new value added to the product by means of one week's labor which enters completely into the weekly product, but also the value of the raw and auxiliary material consumed by the weekly product. These values circulate with the product containing them. They assume the form of money by the sale of the product and must be reconverted into the same elements of production. This applies as well to the labor-power as to the raw and auxiliary materials. But we have already seen (chapter IV, 2, A) that the continuity of the production requires a supply of means of production, different for various branches of industry, and different within one and the same branch for the various component parts of the circulating capital, for instance, for coal and cotton. Hence, although these materials must be continually replaced in their natural form, they need not be bought continually. How often new purchases of them must be made, depends on the magnitude of the available supply, on the times it takes to use it up. In the case of the labor-power, there is no such storing of a supply. The reconversion into money of the capital invested in labor-power goes hand in hand with that of the capital invested in raw and auxiliary materials. But the reconversion of the money, on one side into labor-power, on the other into raw materials, proceeds separately on account of the special

terms of purchase and payment of these two constituents of productive capital, one of them being bought as a productive supply for long terms, the other, labor-power, for shorter terms, for instance, for terms of one week. On the other hand, the capitalist must keep a supply of finished commodities besides a supply of materials for production. Apart from the difficulties of selling, etc., a certain quantity must be produced, say for instance, on order. While the last portion of this quantity is being produced, the finished product is waiting in storage until the order can be completely filled. Other differences in the turn-over of circulation capital arise as soon as some of its individual elements must stay in some preliminary stage of the process of production, such as the drying of wood, etc., longer than others. II.IX.17

The credit-system, to which Scrope here refers, and commercial capital, modify the turn-over for the individual capitalist. They modify the turn-over on a social scale only in so far as they do not accelerate merely production, but also consumption.

Notes for this chapter

28.
"Municipal production is bound to a cycle of days, agricultural production to one of years." (Adam G. Mueller, Die Elemente der

Staatskunst. Berlin, 1809, II, page, 178.) This is the naive conception of industry and agriculture held by the romantic school.

Part II,

Volume II Chapter X THEORIES OF FIXED AND CIRCULATING CAPITAL, THE PHYSIOCRATS AND ADAM SMITH.

II.X.1

In Quesnay's analysis, the distinction between fixed and circulating capital assumes the form of avances primitives and avances annuelles. He correctly represents this distinction as one to be made with regard to productive capital, to capital directly engaged in the process of production. But owing to the fact that he regards the capital invested in agriculture, the capital of the capitalist farmer, as the only really productive capital, he makes these distinctions only for the capital of this farmer. This also accounts for the annual period of turn-over of one part of the capital, and the more than annual (decennial) of the other part. Incidentally it may be noted, that in the course of their development the physiocrats applied these distinctions also to other kinds of capital, to industrial capital in general. The distinction between annual advances and others extending over a longer period retained such lasting value for social science that many economists, even after Adam Smith, returned to it.

II.X.2

The distinction between these two kinds of advances is not made, until money has been transformed into the elements of productive capital. It is a distinction which applies solely to the divisions of productive capital. Quesnay, therefore, never thinks of classing money either among the primitive or the annual advances. In their capacity as advances on production, these two categories confront on one side the money, on the other the commodities existing on the market. Furthermore, the distinction between these two elements of productive capital is correctly defined as resting on the different manner in which they enter into the value of the finished product, and this implies the different way in which their values are circulated together with those of the products. From this, again, follows the different method of their reproduction, the value of the one being entirely replaced annually, that of the other only partially and in longer intervals.*29
II.X.3

The only progress made by Adam Smith is the generalization of the categories. He no longer applies them to one special form of capital, the tenant's capital, but to every form of productive capital. Hence it follows as a matter of fact that the distinction between an annual period of turn-over and one of longer duration, derived from agriculture, is replaced by the general distinction of the different periods of turn-over, so that one turn-over of the fixed capital always comprises more than one turn-over of the circulating capital,

regardless of the periods of turn-over of the circulating capital, whether they be annual, more than annual, or less. Thus Adam Smith transforms the annual advances into circulating capital, and the primitive advances into fixed capital. But his progress is confined to this generalization of the categories. His analyses are far inferior to those of Quesnay.
II.X.4

His unclearness is manifested at the very outset by the crudely empirical manner in which he broaches the subject: "There are two different ways in which a capital may be employed so as to yield a revenue or profit to its employer." (Wealth of Nations. Book II, Chap. I, page 189, Aberdeen addition, 1848.)
II.X.5

As a matter of fact, the ways in which value may be employed so as to perform the functions of capital and yield surplus-value to its owner are as different and varies as the spheres of investment of capital. It is a question of the different spheres of production in which capital may be invested. If put in this way, the question implies still more. It includes the other question of the way in which value, even if it is not employed as productive capital, may perform the functions of capital for its owner, for instance, as interest-bearing capital, merchants' capital, etc. At this point we are already far away from the real object of the analysis, that is to say from the question: How does

the division of productive capital into its various elements affect their periods of turn-over, leaving out of consideration their different spheres of investment?
II.X.6

Adam Smith continues immediately: "First, it may be employed in raising, manufacturing, or purchasing goods, and selling them again with a profit." He does not tell us anything else in this statement than that capital may be employed in agriculture, manufacture, and commerce. He speaks only of the different spheres of investment of capital, including commerce, in which capital is not directly embodies in the process of production and does not perform the functions of productive capital. In so doing he abandons the foundation on which the physiocrats base the distinctions of the elements of productive capital and their influence on its periods of turn-over. He goes still farther and uses merchants' capital as an illustration of a problem, which concerns exclusively differences of productive capital in the process of production and the creation of value, which differences cause those of its turn-over and reproduction.
II.X.7

He continues: "The capital employed in this manner yields no revenue or profit to its employer, while it either remains in his possession or continues in the same shape." The capital employed in this manner! Smith is referring to capital invested in agriculture, in industry, and he

tells us later on that a capital so employed is divided into fixed and circulating capital! But the investment of capital "in this manner" cannot make fixed or circulating capital of it.
II.X.8

Or does he mean to say that capital employed in the production of commodities and their sale at a profit must again be sold after its transformation into commodities and must pass in the first place from the possession of the seller into that of the buyer, and in the second place from its commodity-form into the money-form, so that it is of no use to its owner so long as it retains the same form in his hands? In that case, the problem amounts to this: The same capital-value, which formerly performed the functions of productive capital in a form typical of the process of production, neo performs those of commodity-capital and money-capital in forms typical of the process of circulation, where it is no longer either fixed or circulating capital. And this applies equally to those elements of value which are added by means of raw and auxiliary material, in other words to circulating capital, and to those which are added by the consumption of instruments of production, or to fixed capital. We do not get any nearer to the distinction between fixed and circulating capital in this way.
II.X.9

Adam Smith says furthermore: "The goods of the merchant yield him no revenue or profit till he sells them for money, and the money yields him as little till it is again exchanged for goods. His capital is continually going from him in one shape, and returning to him in another, and it is only by means of such circulation, or successive exchanges, that it can yield him any profit. Such capitals, therefore, may very properly be called circulating capital."
II.X.10

That which Adam Smith here calls circulating capital, is a thing which I shall call capital of circulation, that is to say, capital in a form characteristic of the process of circulation, changes of form due to exchange (a change of substance and of hands), in other words, commodity-capital and money-capital, as distinguished from the form of productive capital, which is characteristic of the process of production. These are not special divisions made by the industrial capitalist of his capital, but different forms assumed and discarded by the advanced capital-value during its course of life, in ever renewed cycles. The great backward step of Adam Smith as compared with the physiocrats is that he does not discriminate between these forms and those which arise in the circulation of capital-value through its successive metamorphoses while it exists in the form of productive capital, and which are due to different ways in which the various elements of productive capital take part in the formation of values and transfer their own value to the products. We shall see the

consequences of confounding these fundamentals, productive capital and capital in the sphere of circulation (commodity-capital and money-capital) on one side, and fixed and circulating capital on the other. The capital-value advanced in fixed capital is as much circulated by the product as that which has been advanced in the circulating capital, and both are equally transformed into money-capital by the circulation of commodity-capital. The difference arises only from the fact that the value of fixed capital circulates piece-meal and is, therefore, reproduced in the same way in shorter or longer intervals in its natural form.
II.X.11

That Adam Smith means nothing else by this term of circulating capital in the above passage but capital of circulation, that is to say, capital in the form of commodity-capital and money-capital characteristic of the process of circulation, is shown by his singularly ill-chosen illustration. He selects for this purpose a kind of capital which does not belong to the process of production, but to the sphere of circulation. This is merchants' capital, which consists only of capital of circulation.
II.X.12

How absurd it is to start out with an illustration, in which capital does not perform the functions of productive capital, is immediately shown by himself,. "The capital of a merchant is altogether a circulating

capital." But later on we learn that the difference between circulating and fixed capital arises out of the essential differences within the productive capital itself. On one side, Adam Smith has the distinction of the physiocrats in mind, on the other the different forms assumed by capital-value in its cycles. And these things are jumbled together by him without any discrimination.
II.X.13

But it is quite incomprehensible how profit should arise by the transformation of money and commodities, by the mere exchange of one of these forms for the other. And an explanation becomes impossible for Adam Smith, because he starts out with merchants' capital which moves only in the sphere of circulation. We shall return to this later. Let us first hear what he has to say about fixed capital.

"Secondly, it (capital) may be employed in the improvement of land, in the purchase of useful machines and instruments of trade, or in such like things as yield a revenue or profit without changing masters, or circulating any further. Such capitals, therefore, may very properly be called fixed capitals. Different occupations require very different proportions between the fixed and circulating capitals employed in them.... Some part of the capital of every master artificer or manufacturer must be fixed in the instruments of his trade. This part, however, is very small in some, and very great in others.... The far greater part of the capital of all such master artificers (such as

tailors, shoemakers, weavers) however, is circulated, either in the wages of their workmen, or in the price of their materials, and to be repaid with a profit by the price of the work."

II.X.14

Apart from the naive determination of the source of profit, the weakness and confusion of these statements becomes at once apparent, when we consider, e.g., that, for a machine manufacturer, a machine is his product, which circulates as commodity-capital, or in Adam Smith's words, "is parted with, changes masters, circulates farther." According to his own definition, therefore, this machine would not be fixed, but circulating capital. This confusion is due to the fact that Smith confounds the distinction between fixed and circulating capital, which arises out of the different circulation of the various elements of productive capital, with differences of form successively assumed by the same capital when performing the functions of productive capital within the sphere of production, while in the circulation it becomes capital of circulation, that is to say commodity-capital and money-capital. According to the place which the same things occupy in the life-processes of capital, they may, in the opinion of Adam Smith, perform the functions of fixed capital (means of production, elements of productive capital), or of "circulating" commodity-capital (products transferred from the sphere of production to that of circulation).

But Adam Smith suddenly changes the entire basis of his division, and contradicts the statements with which he had opened his analysis a few lines previously. This is done especially by the statement that "there are two different ways in which a capital may be employed so as to yield a revenue or profit to its employer," that is to say as circulating or as fixed capital. These two categories would, therefore, be different methods of employment of different capitals independent of one another, some being employed in industries, others in agriculture. But immediately he says: "Different occupations require very different proportions between the fixed and circulating capitals employed in them." Here fixed and circulating capital are no longer different independent investments of different capitals, but different proportions of the same productive capital, which represent different portions of the total value of this capital in different spheres of investment. They are here differences arising from the appropriate division of the productive capital itself and valid only with respect to it. But this is contrary to the distinction of commercial capital, which according to him is circulating capital as compared to fixed capital, when he says: "The capital of a merchant is altogether a circulating capital." It is indeed a capital performing its functions entirely within the sphere of circulation, and is for this reason distinguished from productive capital embodied in the process of production. But for this every reason it cannot be regarded as a constituent part of the

circulating portion of productive capital, as distinguished from its fixed portion.
II.X.16

In the illustrations given by Adam Smith, he defines the instruments of trade as fixed capital, and the portion of productive capital invested in wages and raw materials, including auxiliary materials, as circulating capital, "repaid with a profit by the price of the work."
II.X.17

He starts out, then, from the various constituents of the labor-process, from labor-power (labor) and raw materials on one side, and instruments of labor on the other. And these are constituents of capital, because a quantity of values is invested in them for the purpose of performing the functions of capital.
II.X.18

To this extent they are material elements, modes of existence of productive capital, that is to say, of capital serving in the process of production. But why is one of these constituents called fixed? Because "some parts of the capital must be fixed in the instruments of trade." But the other parts are also fixed in wages and raw materials. Machines, however, and "instruments of trade...such like things...yield a revenue or profit without changing masters or circulating any

further. Such capitals, therefore, may very properly be called fixed capitals."
II.X.19

Take, for instance, the mining industry. No raw material at all is used there, because the object of labor, such as copper, is the product of nature, which must be obtained first of all by labor. The copper to be obtained, the product of the process, which circulates later on as a commodity, or commodity-capital, does not form an element of productive capital. No part of its value is thus invested. On the other hand, the other elements of the productive process, such as labor-power, and auxiliary materials such as coal, water, etc., do not enter bodily into the product. The coal is entirely consumed and only its value enters into the product, just as a part of the value of the machine is transferred to it. The laborer, finally, remains just as independent so far as the product, the copper, is concerned, as the machine. Only the value which he produces by his labor becomes a part of the value of the copper. But in this illustration, not a single constituent part of productive capital changes masters, nor do any of them circulate further, because none of them enter bodily into the product. What becomes of the circulating capital in this case? According to Adam Smith's own definition, the entire capital employed in mining would consist only of fixed capital.
II.X.20

On the other hand, let us look at some other industry, which utilizes raw materials that form the substance of its product, and auxiliary materials that enter bodily into the product, instead of only so far as their value is concerned, as in the case of coal for fuel.
Simultaneously with the product, for instance with the yarn, the raw material composing it, the cotton, likewise changes masters, and passes from the process of production to that of consumption. But so long as the cotton performs the function of an element of productive capital, its owner does not sell it, but manipulates it for the purpose of making it into yarn. He does not take his hand from it. Or, to use Smith's crudely erroneous and trivial terms, he does not make any profit by parting with it, by its changing masters, or by circulating it. He does not permit his materials to circulate any more than his machines. They are fixed in the process of production, the same as the spinning machines and the factory buildings. Indeed, a part of the productive capital in the form of coal, cotton, etc., must be just as continually fixed as that in the form of instruments of labor. The difference is only that the cotton, coal, etc., required for the process of production, say, for one week, is always entirely consumed in the manufacture of the weekly product, so that new specimens of cotton, coal, etc., must be supplied; in other words, these elements of productive capital consist continually of new specimens of the same species, identical only so far as the species is concerned, while the same individual spinning machine, the same individual factory-building, continue their participation in a whole series of weekly productions

without being replaced by new specimens of their kind. All the elements of productive capital constituting its parts must be continually fixed in the process of production, for it cannot proceed without them. And all the elements of productive capital, whether fixed or circulating, are equally distinguished as productive capital from capital of circulation, that is to say, commodity-capital and money-capital.
II.X.21

It is the same with labor-power. A part of the productive capital must be continually fixed in it, and the same identical labor-powers, just as in the case of the machines, are everywhere employed for a certain length of time by the same capitalist. The difference between labor-power and machines in this case is not that the machines are bought once for all (which is not even the case when they are paid for in instalments), while the laborer is not. The difference is rather that the labor expended by the laborer enters wholly into the value of the product, while the value of the machines enters piecemeal into it.
II.X.22

Smith confounds different definitions, when he says of circulating capital as compared to fixed: "The capital employed in this manner yields no revenue or profit to its employer, while it either remains in his possession or continues in the same shape." He places the merely formal metamorphosis of the commodity, which the product in the form of commodity-capital, undergoes in the sphere of circulation and

which brings about the change of masters of the commodities, on the same level with the bodily metamorphosis, which the different elements of productive capital undergo during the process of production. He unceremoniously jumbles together the transformation of commodities into money, of money into commodities, or purchase and sale, with the transformation of elements of production into products. His illustration for circulating capital is merchants' capital which is transformed from commodities into money and from money into commodities‘the metamorphosis C‘M‘C belonging to the circulation of commodities. But this metamorphosis within the circulation signifies for the industrial capital in action that the commodities into which the money is retransformed are elements of production (means of production and labor power), in other words, that it renders the function of industrial capital continuous, that it makes of the process of production a continuous one, a process of production. This entire metamorphosis takes place in circulation. It is the process of circulation which brings about the bodily transition of the commodities from one master to another. On the other hand, the metamorphoses experienced by productive capital within the process of production take place in the labor-process and are necessary for the purpose of transforming the elements of production into the desired product. Adam Smith clings to the fact that a part of the means of production (the instrument of labor, strictly speaking) serve in the labor process (yield a profit to their master, as he erroneously expresses it) without changing their natural form and wear out only by decrees; while

another part, the materials, change their form and fulfill their duty as means of production by virtue of this very fact. This difference in the behavior of the elements of productive capital in the labor-process, however, serves only as the point of departure for the difference between fixed capital and capital which is not fixed, but it is not this difference itself. This is evident from the mere fact that this different behavior is common to all modes of production, whether they are capitalist or not. But on the other hand, this different behavior of the substances is accompanied by a different yield of value to the product, and this in its turn corresponds to a different reproduction of value by the sale of the product. And this is what constitutes the difference in question. Hence capital is not fixed capital, because it is fixed in the means of production, but because a part of the value invested in means of production remains fixed in them, while another part circulates as a part of the value of the product.

"If it (the stock) is employed in procuring future profit, it must procure this profit by staying with him (the employer), or by going from him. In the one case it is a fixed, in the other it is a circulating capital." (Page 189.)

II.X.23

In this statement, it is the crudely empirical conception of profit derived from the ideas of the ordinary capitalist, which is remarkable,

being contrary to the better esoteric understanding of Adam Smith. Not only the price of the materials, but also that of the labor-power is reproduced by the price of the product, and so is that part of value which is transferred by wear and tear from the instruments of labor to the product. Under no circumstances does this reproduction yield any profits. Whether a value advanced for the production of a commodity is reproduced entirely or in part, at one time or gradually, by the sale of that commodity, cannot change anything except the manner and time of its reproduction. But it can in no way transform that which is common to both, the reproduction of value, into a production of surplus-value. We meet here once more the common idea that surplus-value arises only through sale, in the circulation, because it is not realized until the product is sold, until it circulates. As a matter of fact, the different genesis of the profit is in this case but a mistaken phrase for the truth that the different elements of productive capital are differently employed, and have a different effect in the labor-process as different productive elements. In the final analysis, the difference is not attributed to the process of production or self-expansion, not to the function of productive capital itself, but it is supposed to apply only subjectively to the individual capitalist, whom one part of capital serves a useful purpose in one way, while another does in a different way.

II.X.24

Quesnay, on the other hand, had derived this difference from the process of reproduction and its requirements. In order that this process may be continuous, the value of the annual advances must be annually reproduced in full by the value of the annual product, while the value of the capital stock is reproduced only by degrees, for instance, in ten years, and is not fully worn out to the point of replacement by another specimen of the same kind until then. Adam Smith here falls far below Quesnay.
II.X.25

Nothing remains therefore to Adam Smith for the determination of the fixed capital but the fact that it is represented by instruments of production which do not change their form in the process of production and continue to serve in production until they are worn out, as distinguished from the product, in the formation of which they co-operate. He forgets that all elements of productive capital are continually confronted in their natural form (instruments of labor, materials, and labor-power) by the product and by the circulating commodity, and that the difference between the part consisting of materials and labor-power and that consisting of instruments of labor is this: Labor-power is always purchased afresh, not bought for good like the instruments of labor; the materials manipulated in the labor-process are not the same identical specimens throughout, but always new specimens of the same kind. At the same time the false impression is created that the value of the fixed capital does not

participate in the circulation, although Adam Smith has previously analyzed the wear and tear of fixed capital as a part of the price of the product.
II.X.26

In mentioning the circulating capital as distinguished from the fixed, he does not emphasize the fact, that this distinction rests on the circumstance that circulating capital is that part of productive capital which must be fully reproduced by the value of the product and must therefore fully share in its metamorphoses, while this is not so in the case of the fixed capital. On the contrary, he jumbles it together with those forms which capital assumes in its transition from the sphere of production to that of circulation, that is to say, commodity-capital and money-capital. But both forms, commodity-capital as well as money-capital, are bearers of the value of the fixed and the circulating parts of productive capital. Both of them are capitals of circulation, as distinguished from productive capital, but they do not represent circulating capital as distinguished from fixed capital.
II.X.27

Finally, owing to the entirely confused idea of the making of profit by the staying of the fixed capital in the process of production, and the passing from it and circulating of the circulating capital, the essential difference between the variable capital and the circulating parts of the constant capital in the process of self-expansion and the formation of

surplus-value is hidden under the identity of form, so that the entire secret of capitalist production is obscured still more; by the application of the common term "circulating capital" this essential difference is abolished; political economy subsequently went still farther by neglecting the distinction between variable and constant capital and dwelling on the difference between fixed and circulating capital as the essential and typical distinction.
II.X.28

After Adam Smith has defined fixed and circulating capital as two different ways of investing capital, each of which yields a profit by itself, he says: "No fixed capital can yield any revenue but by means of a circulating capital. The most useful machines and instruments of trade will produce nothing without the circulating capital which affords the materials they are employed upon, and the maintenance of the workmen who employ them." (Page 188.)
II.X.29

Here it becomes apparent what the previously used phrases "yield a revenue, make a profit, etc.," signify, viz., that both parts of capital serve in the formation of the product.
II.X.30

Adam Smith then gives the following illustration: "That part of the capital of the farmer which is employed in the implements of

agriculture is a fixed, that which is employed in the wages and maintenance of his laboring servants is a circulating capital." (Here the difference of fixed and circulating capital is correctly applied as referring to the different circulation, the turn-over of different constituent parts of productive capital.) "He makes a profit of the one by keeping it in his own possession, and of the other by parting with it. The price or value of his laboring cattle is a fixed capital" (here he is again correct in that it is the value, not the material substance, which determines the difference), "in the same manner as that of the instruments of husbandry; their maintenance" (meaning that of the laboring cattle) "is a circulating capital, in the same way as that of the laboring servants. The farmer makes his profit by keeping the laboring cattle and parting with their maintenance." (The farmer keeps the fodder of the cattle, he does not sell it. He uses it to feed the cattle, while he exploits the cattle themselves as instruments of labor. The difference is only this: The feed used for the maintenance of the cattle is wholly consumed and must be continually reproduced by new feed, either by means of the products of agriculture or by their sale; while the cattle themselves are reproduced only to the extent that each specimen becomes worn out.) "Both the price and the maintenance of the cattle which are bought in and fattened, not for labor, but for sale, are a circulating capital. The farmer makes his profit by parting with them." (Every producer of commodities, hence the capitalist producer likewise, sells his product, the result of his process of production, but this is not a means of constituting this

product a part of either the fixed or the circulating part of his productive capital. The product has now rather that form, in which it is released from the process of production and compelled to perform the function of commodity-capital. The fattened stock serve in the process of production as raw material, not as instruments of labor like the laboring cattle. Hence the fattened cattle enter bodily into the product, and their whole value enters into it, just as that of the auxiliary material, the feed, does. The fattened cattle are, therefore, a circulating part of the productive capital, but they are not so, because the sold product, these same cattle, have the same natural form as the raw material, that is to say these cattle when not yet fattened. This is a mere coincidence. At the same time Adam Smith might have seen by this illustration that it is not the material form of the elements of production, but their function within the process of production, which determines the value contained in them as a fixed or circulating one.) "The whole value of the seed, too, is a fixed capital.... Though it goes backwards and forwards between the ground and the granery, it never changes masters, and therefore it does not properly circulate. The farmer makes his profit not by its sale, but by its increase."
II.X.31

At this point, the utter thoughtlessness of smith's distinction reveals itself. According to him, the seeds would be fixed capital, if there would be no change of masters, that is to say, if the seeds were

directly reproduced out of the annual product by subtracting them from it. On the other hand, they would be circulating capital, if the entire product were sold and a part of its value employed for the purchase of another's seed. In the one case, there would be a change of masters, in the other there would not. Smith once more confounds circulating and commodity-capital at this point. The product is the material bearer of the commodity-capital, but of course only that part of it which actually enters into the circulation and does not re-enter directly into the process of production, from which it came as a product.
II.X.32

Whether the seed is directly subtracted as a part of the product, or whether the entire product is sold and a part of its value converted in the purchase of another man's seed, in either case it is mere reproduction which takes place, and no profit is produced by it. In the one case, the seed enters into circulation with the remainder of the product as a commodity, in the other it figures only in bookkeeping as a part of the value of the advanced capital. But in both cases, it remains a circulating part of the productive capital. It is entirely consumed in getting the product ready, and it must be entirely reproduced by means of it, in order to make self-expansion possible.
II.X.33

According to Adam Smith, raw and auxiliary materials lose their independent form, which they carried as use-values into the labor-process. Not so the instruments of labor proper. An instrument, a machine, a factory-building, a vessel, etc., serve in the labor-process only so long as they preserve their original form and enter the labor-process to-morrow in the same form in which they did yesterday. Just as they preserve their independent form as compared to the product during life, in the labor-process, so they do after death. The corpses of machines, shops, factory-buildings, still exist independently of the products, which they helped to form. (Book I, chapter VIII, page 227.)

II.X.34

These different ways in which means of production are used in the formation of the product, some of them preserving their independent form as compared to the product, others changing or losing it entirely, ‘this difference pertaining to the labor-process itself, regardless of whether it is carried on for home use, without exchange, without any production of commodities, as it was, for instance, in the patriarchal family, is falsified by Adam Smith, (1) by vitiating it with the irrelevant definition of profit, saying that some of the elements of production yield a profit to their owner by preserving their form, while others do so by losing it; (2) by jumbling together the changes of a part of the elements of production in the labor-process with that metamorphosis in the circulation of commodities which consists of the exchange, the

sale and purchase, of products and involves a change of masters of the circulating commodities.
II.X.35

The turn-over presumes the reproduction by the intervention of the circulation, by the sale of the product, by its conversion into money and its reconversion from money into elements of production. But to the extent that a part of the product of the capitalist producer serves him directly as his own means of production, he figures as its seller to himself, and this transaction is so entered in his books. This part of the reproduction is not accomplished by the intervention of the circulation, but proceeds directly. But a part of the product thus re-employed as means of production replaces circulating, not fixed, capital, to the extent, (1) that its value passes wholly into the product, and (2) that it is itself wholly reproduced in its natural form by means of the new product.
II.X.36

Adam Smith, however, tells us what circulating and fixed capital consist of. He enumerates the things, the material elements, which form fixed, and those which form circulating capital, just as though this character were due to the natural substance of those things, instead of to their definite function within the capitalist process of production. And yet in book II, chapter I, he makes the remark that although a certain thing, for instance, a residence, which is reserved

for direct consumption, "may yield a revenue to its proprietor, and thereby serve in the function of a capital to him, it cannot yield any to the public, nor serve in the function of a capital to it, and the revenue of the whole body of the people can never be in the smallest degree increased by it." (Page 186.) Here, then, Adam Smith clearly states that the character of capital is not inherent in the things themselves, but is a function with which they may or may not be invested, according to circumstances. But what is true of capital in general, is also true of its subdivisions.
II.X.37

The same things form constituent parts of the circulating or fixed capital, according to whether they perform this or that function in the labor-process. A domestic animal, for instance, as a laboring animal (instrument of labor), represents the material mode of existence of fixed capital, while as stock for fattening (raw material) it is a constituent part of the circulating capital of the farmer. On the other hand, the same things serve either as constituent parts of productive capital, or belong to the fund for direct consumption. A house, for instance, when performing the function of a workshop, is a fixed part of productive capita; when serving as a residence, it is not at all a form of productive capital. The same instruments of labor may in many cases serve now as means of reproduction, now as means of consumption.
II.X.38

It was one of the errors following from the conception of Smith that the capacity of fixed and circulating capital was regarded as vested in the things themselves. The mere analysis of the labor-process on his part, in book I, chapter V, shows that the capacity of instruments of labor, materials of labor and products changes according to the different role played by one and the same thing in the process. The determination of what is fixed or circulating capital, in its turn, is based on the definite roles played by these elements in the labor-process, and therefore also in the process of the formation of value. II.X.39

In the second place, in enumerating the things of which fixed and circulating capital may consist, Smith plainly discloses the fact that he jumbles together the distinction between fixed and circulating capital, applicable and justified only with reference to productive capital (capital in its productive form), with the distinction between productive capital and those of its forms which belong to the process of circulation, viz., commodity-capital and money-capital. He says in the same place (pages 187,188): "The circulating capital consists...of the provisions, materials, and finished work of all kinds that are in the hands of their respective dealers, and of the money that is necessary for circulating and distributing them, etc." Indeed, if we look closer, we observe that he has here, contrary to previous statements, used circulating capital as being equivalent to commodity-capital and

money-capital, that is to say to two forms of capital which do not belong to the process of production at all, which are not circulating capital as opposed to fixed, but capital of circulation as opposed to productive capital. It is only in co-ordination with these that those constituents of productive capital, which are advanced in materials (raw materials or partly finished products) are actually embodied in the process of production, play a role. He says:

"...The third and last of the three portions into which the general stock of society naturally divides itself, is the circulating capital, of which the characteristic is, that it affords a revenue only by circulating or changing masters. This is composed likewise of four parts: first, of the money..." (but money is never a form of productive capital, of capital performing its function in the productive process; it is always merely one of the forms assumed by capital within its process of circulation.)..."secondly, of the stock of provisions which are in the possession of the butcher, the grazier, the farmer...and from the sale of which they expect to derive a profit... Fourthly and lastly, of the work which is made up and completed, but which is still in the hands of the merchant and manufacturer. And, thirdly, of the materials, whether altogether rude or more or less manufactured, of clothes, furniture, and buildings, which are not yet made up into any of those three shapes but which remain in the hands of the growers, the manufacturers, the mercers and drapers, the timber-merchants, the carpenters and joiners, the brick-makers, etc."

II.X.40

His second and fourth count contain nothing but products, which have been released by the process of production and must be sold; in short, they are products which now perform the function of commodities, or commodity-capital, and which, therefore, have a form and occupy a place in the process, in which they are not elements of productive capital, no matter what may be their destination, whether they answer their final purpose as use-values in individual or productive consumption. The products mentioned under secondly are foodstuffs, those under fourthly all other finished products, which in their turn consist only of finished instruments of labor or finished articles of consumption not included in the foodstuffs under count two.
II.X.41

The fact that Smith at the same time speaks of the merchant, shows his confusion. To the extent that the producer transfers his product to the merchant, it does no longer form any part of his capital. From the social point of view, it is indeed still a commodity-capital, although in other hands than those of its producer; but for the very reason that it is a commodity-capital, it is neither a circulating nor a fixed capital.
II.X.42

Under every mode of production not carried on for direct home-consumption the product must circulate as a commodity, that is to say, it must be sold, not in order to make a profit out of it, but that the producer may be able to live at all. Under the capitalist mode of production we have the further fact that the surplus-value embodied in a certain commodity is realized by its sale. In its capacity as a commodity, the product leaves the process of production and is, therefore, neither a fixed nor a circulating element of this process.
II.X.43

By the way, Smith here testifies against himself. The finished products, whatever may be their material form, their use-value, their utility, are all commodity-capital, that is to say capital in a form typical of the process of circulation. Being in this form, they are not constituent parts of any productive capital which their owner may have. Of course, this does not argue against the fact that, after their sale, they may become constituent parts of productive capital in the hands of their purchaser, and then represent either fixed or circulating capital. This shows that the same things, which at a certain time appear on the market as commodity-capital distinct from productive capital, may or may not perform the function of productive capital after they have been removed from the market.
II.X.44

The product of the cotton spinner, yarn, is the commodity-form of his capital, is a commodity-capital from his point of view. It cannot again perform the function of some constituent part of his productive capital, neither as raw material nor as an instrument of labor. But in the hands of the weaver who buys it, it is embodied in his productive capital as one of its circulating parts. For the spinner, on the other hand, the yarn is the bearer of the value of his fixed and circulating capital (not considering the surplus-value). So is a machine, the product of a machine maker, the commodity-form of his capital, commodity-capital from his point of view. And so long as it persists in this form, it is neither fixed nor circulating capital. But if it is sold to a manufacturer for use in his production, it becomes a fixed part of his productive capital. Even if a certain product re-enters as a use-value for the purpose of production into the same process from which it emanated, for instance coal in the production of coal, even then that part of the output of coal which is intended for sale represents neither fixed nor circulating capital, but commodity-capital.
II.X.45

On the other hand, the utility-form of a certain product may be such that it is incapacitated for service as an element of productive capital, either as raw material or an instrument of labor. This is the case, for instance, with articles of food. Nevertheless it is a commodity-capital for its producer, in which the value of his fixed as well as his circulating capital is incorporated; and it is the representative of the

value of either the one or the other of these two forms according to whether the capital employed in its production has to be reproduced in full or partially, in other words, according to whether this capital transfers its full or its partial value to the product.
II.X.46

With Smith, in his count No. 3, the raw material (raw material, partly finished product, auxiliary material), does not figure as a part embodied in the productive capital, but merely as a special kind of use-values of which the social product generally consists, a mass of commodities existing apart from the other material elements, foodstuffs, etc., enumerated under Nos. 2 and 4. On the other hand, these materials are indeed incorporated in the productive capital and therefore also classed as its elements in the hands of the producer. The confusion arises from the fact that they are partly regarded as performing a function in the hands of the producer (in the hands of the growers, the manufacturers, etc.), and partly in the hands of merchants (mercers, drapers, timber-merchants), where they are merely commodity-capital, not elements of productive capital.
II.X.47

Indeed, Adam Smith forgets here, in the enumeration of the elements of circulating capital, all about the fact that the distinction of fixed and circulating capital applies only to the productive capital. He rather places commodity-capital and money-capital, the two forms of capital

typical of the process of circulation, opposite of the productive capital, but quite unconsciously.
II.X.48

Finally, it is worthy of note that Adam Smith forgets to mention labor-power as one of the elements of productive capital. And there are two reasons for this.
II.X.49

We have just seen that, apart from money-capital, circulating capital is only another name for commodity-capital. But to the extent that labor-power circulates on the market, it is not capital, not a form of commodity-capital. It is not capital at all; the laborer is not a capitalist, although he brings his commodity to market, namely his own skin. Not until labor-power has been sold and incorporated in the process of production, in other words, until it has ceased to circulate as a commodity, does it became an element of productive capital, variable capital and the source of surplus-value, a circulating part of productive capital so far as the turn-over of the capital-value invested in it is concerned. Since Smith here confounds the circulating capital with commodity-capital, he cannot place labor-power under his category of circulating capital. Hence the commodity-capital here appears in the form of commodities which the laborer buys with his wages, that is to say, means of subsistence. In this form, the capital-value invested in wages is supposed to belong to the circulating

capital. That which is incorporated in the process of production is labor-power, the laborer himself, not the means of subsistence by which the laborer maintains himself. True, we have seen in volume I, chapter XXIII, that, from the point of view of society, the reproduction of the laborer himself by means of his individual consumption belongs to the process of reproduction of social capital. But this does not apply to the individual and isolated process of production which we are studying here. The "acquired and useful abilities" which Smith mentions under the head of fixed capital, are on the contrary elements of circulating capital, when they are abilities of the wage-worker and have been sold by him with his labor.
II.X.50

It is a great mistake on the part of Smith to divide the entire social wealth into (1) a fund for immediate consumption, (2) fixed capital, and (3) circulating capital. According to this, wealth would have to be classified as (1) a fund for consumption, which would not represent a part of social capital engaged in the performance of its functions, although some parts of it may continually assist in this performance; and (2) as capital. In other words, a part of the wealth would be performing the functions of capital, another those of non-capital or a fund for consumption. And it seems that it is here an indispensable requirement for all capital to be either fixed or circulating, about in the same way that it is a natural necessity for a mammal to be either male or female. But we have seen that the distinction of being fixed

or circulating applies solely to the elements of productive capital, that, therefore, there is also a considerable quantity of capital‘commodity-capital and money-capital‘existing in a form which does not permit of its being either fixed or circulating.
II.X.51

Seeing that the entire mass of social products, under capitalist production, circulates on the market as commodity-capital, with the exception of that part of the product which is directly consumed by the individual capitalist producers in its natural form as means of production without being sold or bought, it is evident that not only the fixed and circulating elements of productive capital, but also all the elements of the fund for consumption are derived from the commodity-capital. This is equivalent to saying that, on the basis of capitalist production, both means of production and of consumption first appear as commodity-capital, even though they are intended for later use as means of production or consumption. Labor-power itself is likewise found on the market as a commodity, if not as commodity-capital.
II.X.52

This accounts for the following confusion in Adam Smith: "Of these four parts" (meaning circulating capital, that is to say capital in its forms of commodity-capital and money-capital typical of the process of circulation, which Adam Smith transforms into four parts by making

distinctions between the substantial parts of commodity-capital) "three‘ provisions, materials, and finished work, are either annually or in a longer or shorter period, regularly withdrawn from it, and placed either in the fixed capital, or in the stock reserved for immediate consumption. Every fixed capital is both originally derived from, and requires to be continually supported by, a circulating capital. All useful machines and instruments of trade are originally derived from a circulating capital, which furnishes the materials of which they are made and the maintenance of the workmen who make them. They require, too, a capital of the same kind to keep them in constant repair." (Page 188.)
II.X.53

With the exception of that part of the product which is immediately consumed as means of production, the following general rule applies to capitalist production: All products are taken to market as commodities and, therefore, circulate as capital in the form of commodities, as the commodity-capital of the capitalist, regardless of whether these products must or may serve in their natural form, as use-values, in the performance of their function as elements of productive capital in the process of production, in other words, as means of production and, therefore, as fixed or circulating parts of productive capital, or whether they can serve only as means of individual, not of productive, consumption. All products are thrown upon the market as commodities; all means of production or

consumption, all elements of productive and individual consumption, must therefore be released from the market by purchasing them as commodities.
II.X.54

Of course, this truism is correct. It applies for this reason to the fixed as well as the circulating elements of productive capital, for instruments of labor as well as raw material in all its forms. (This, moreover, is leaving aside the fact that there are certain elements of productive capital which are furnished ready by nature and are not products.) A machine is bought on the market as well as cotton. But this implies by no means that every fixed capital comes originally from some circulating capital; it is only through the confusion, on the part of Smith, of capital of circulation with circulating capital, with capital that is not fixed, that this erroneous conclusion is reached. And to cap the climax, Smith refutes himself. According to him, machines, as commodities, form a part of No. 4, the circulating capital. To say that they come from the circulating capital means that they were performing the function of commodity-capital before they performed the function of machines, but that substantially they are derived from themselves; so is cotton, as the circulating element of some spinner's capital, derived from the cotton on the market. But as for deriving fixed capital from circulating capital for the reason that labor and raw material are required for the making of machines, as Adam Smith is doing in his further arguments, we say that in the first place, fixed

capital is also required for the making of machines, and in the second place, fixed capital, such as machinery, is likewise required for the making of raw materials, since the productive capital always includes instruments of labor, but not always raw materials. He says himself immediately afterwards: "Lands, mines, and fisheries, require all both a fixed and circulating capital to cultivate them;"‘thus he admits that not only circulating, but also fixed capital is required for the production of raw materials‘"and"‘renewed confusion at this point‘"their produce replaces with a profit, not only those capitals, but all the others in society." (Page 188.) This is entirely wrong. Their produce furnishes the raw materials, auxiliary substances, etc., for all other branches of industry. But their value does not reproduce the value of all other social capitals; it reproduces merely the value of their own capital (plus the surplus-value). Adam Smith is here stampeded by his recollection of the physiocrats.
II.X.55

Socially speaking, it is true that that part of the commodity capital which consists of products available for immediate or later service as instruments of labor‘unless they are produced uselessly and cannot be sold‘must in fact perform this service whenever they cease to be commodities and become actual elements of the productive capital, in stead of being merely its prospective ones.
II.X.56

But there is a distinction arising from the natural form of the product.
II.X.57

A spinning machine, for instance, has no use-value, unless it is consumed in spinning, so that it performs its function as an element of production and, from the point of view of the capitalist, constitutes a fixed part of his capital. But a spinning machine is movable. It may be exported from the country in which it was produced and sold in a foreign country directly or indirectly, for raw materials, etc., or even for champagne. In that case it has served only as commodity-capital in the country in which it was produced, but never as fixed capital, not even after its sale.
II.X.58

But products which are localized by being imbedded in the soil, and therefore can be consumed only locally, such as factory buildings, railroads, bridges, tunnels, wharves, etc., improvements of the soil, etc., cannot be bodily exported. They are not movable. They are either useless, or they must serve as fixed capital, in the country that produced them, as soon as they have been sold. From the point of view of their capitalist producer, who builds factories or improves land for speculation and sale, these things are forms of his commodity-capital, or, according to Adam Smith, a form of circulating capital. But from the point of view of society, these things must finally serve in the same country as fixed capital in some process of production fixed

by their own locality, unless they are to be useless. This does not imply by any means that immovable things are fixed capital of themselves. They may belong to the fund for consumption, for instance residence houses, and in that case they do not belong to the social capital at all, although they are an element of the social wealth, of which capital is only a part. The producer of these things, to use the language of Smith, makes a profit by their sale. In other words, circulating capital! Their user, their final purchaser, can use them only by utilizing them in the process of production. Therefore, fixed capital!
II.X.59

Titles to property, for instance railroad shares, may change hands every day, and their owner may even make a profit by their sale to foreign countries, so that the title may be exported, if not the railroad. But nevertheless these things themselves must either lie fallow in the country that produced them, or serve as a fixed part of some productive capital. In the same way the manufacturer A may make a profit by the sale of his factory to the manufacturer B, but this does not prevent the factory from serving as fixed capital, the same as before.
II.X.60

However, it does not follow that fixed capital necessarily consists of immovable things, because the locally fixed instruments of labor, which cannot be detached from the soil, must to all intents and purposes

serve at some time as fixed capital in the same country, even though they may serve as commodity-capital for their producer and do not constitute any elements of his fixed capital, which is made up of the instruments of labor required by him for the building of factories, railroads, etc. A ship and a locomotive produce their effects only by motion; yet they serve as fixed capital for the owner who uses them, although not for him who produced them. On the other hand, some things which are very decidedly fixed in the process of production, which live and die in it and never leave it any more after they have entered it, are circulating parts of the productive capital. Such are, for instance, the coal consumed by the machine in the process of production, the gas used for lighting the factory, etc. They are circulating capital not because they bodily leave the process of production together with the product and circulate as commodities, but because their entire value is transferred to that of the product in whose production they assisted, so that their value must be entirely reproduced by the sale of the product.
II.X.61

In the last quotation from Adam Smith, notice must furthermore be taken of the following phrase: "A circulating capital which furnishes...the maintenance of the workmen who make them" (meaning machines, etc.).
II.X.62

In the works of the physiocrats, that part of capital which is advanced for wages figures correctly under the Avances annuelles as distinguished from the Avances primitives. On the other hand it is not the labor-power used as a part of the productive capital of the farmer which figures in their accounts, but the foodstuffs given to the farm laborers (the maintenance of workmen, as Smith calls it). This corresponds exactly to their specific doctrine. For according to them the value added to the product by labor (like the value added to the product by raw material, instruments of labor, etc., in short by all the substantial parts of constant capital) is equal only to the value of the articles of consumption paid to the laborers and necessary for the maintenance of their labor functions. Their doctrine stands in the way of their discovering the distinction between constant and variable capital. If it is labor that produces surplus-value in addition to the reproduction of its own price, then it does so in industry as well as in agriculture. But since, according to their system, surplus-value arises only in one branch of production, namely, agriculture, it does not come out of labor, but out of the special activity (assistance) of nature in this branch. And only for this reason agricultural labor is for them productive labor, as distinguished from other kinds of labor.
II.X.63

Adam Smith classes the maintenance of laborers among the circulating capital as distinguished from fixed.
II.X.64

1. Because he confounds circulating capital as distinguished from fixed with forms of capital belonging to the sphere of circulation, with capital of circulation; this mistake persisted after him without being criticized. He therefore confounds the commodity-capital with the circulating part of the productive capital, and in that case it is a matter of course that, whenever the social product assumes the form of commodities, the maintenance of the laborers as well as that of the non-laborers, the materials as well as the instruments of labor, must be taken out of the commodity-capital.
II.X.65

2. But the physiocratic conception likewise intermingles with the analysis of Smith, although it contradicts the esoteric‘really scientific‘ part of his own deductions.
II.X.66

The advanced capital is universally converted into productive capital, that is to say it assumes the form of elements of production which are themselves the products of past labor. Labor-power is included in them. Capital can serve in the process of production only in this form. Now, if instead of labor-power itself we take the laborer's necessities of life into which the variable part of capital has been converted, it is evident that these necessities of life are not essentially different, so far as the formation of values is concerned, from the other elements

of productive capital, from the raw materials and the food of the laboring cattle, with whom Smith, after the manner of the physiocrats, places the laborers on the same level, in one of the passages quoted above. The necessities of life cannot expand their own value or add any surplus-value to it. Their value, like that of the other elements, can re-appear only in that of the product. They cannot add any more to their value than they have themselves. They, like raw materials, partly finished articles, etc., differ from fixed capital composed of instruments of labor only in that they are entirely consumed in the product of the capitalist who pays for them and uses them in the manufacture of this product, so that their value must be entirely reproduced by this product, while in the case of the fixed capital this takes place gradually and piecemeal. The part of productive capital advanced for labor-power (or for the laborer's articles of consumption) differs here only in the matter of material from the other material elements of productive capital, not in the matter of the process of production or self-expansion. It differs only in so far as it falls into the same category, namely, that of circulating capital, with one part of the objective elements active in the formation of the product (materials, Adam Smith calls them), while another part of these belongs in the category of fixed capital.
II.X.67

The fact that the capital invested in wages belongs to the circulating part of productive capital and shares this circulating quality, as

distinguished from the fixed character of productive capital, with a part of the material objects, the raw materials, etc., instrumental in creating the product, has nothing whatever to do with the role played by this variable part of capital in the process of self-expansion, as distinguished from the constant part of capital. It refers merely to the manner in which this part of the invested capital-value is reproduced out of the value of the product by way of the circulation. The purchase and repeated purchase of labor-power belongs in the process of circulation. But it is only within the process of production that the value invested in labor-power (not for the benefit of the laborer, but that of the capitalist) is converted from a definite constant into a variable magnitude, and only thus the advanced value is converted into capital-value, into self-expanding value. But by classing the value advanced for articles of consumption among the circulating elements of productive capital, as Smith does, instead of the value invested in labor-power, the understanding of the difference between variable and constant capital, and thus the understanding of the capitalist process of production in general, is rendered impossible. The mission of this part of capital of being variable as distinguished from the constant capital invested in material objects instrumental in production, is hidden under the mission of the capital invested in labor-power of serving in the turn-over as a circulating part of productive capital. And the obscurity is made complete by enumerating the laborer's maintenance among the elements of productive capital, instead of his labor-power. It is immaterial, whether the value of labor-power is

advanced in money or immediately in articles of consumption. However, under capitalist production, the last-named eventuality can be but an exception.*30
II.X.68

By thus emphasizing the role of the circulating capital as the determining element of the capital-value invested in labor-power, by using this physiocratic conception without the fundamental premise of the physiocrats, Adam Smith haply rendered the understanding of the role of variable capital as a determinant of capital invested in labor-power impossible for his followers. The more profound and correct analyses given by him in other places did not survive, but this mistake of his did. Other writers after him went even farther. They were not content to make it the essential characteristic of capital invested in labor-power to be circulating as distinguished from fixed capital; they rather made it an essential mark of circulating capital to be invested in articles of consumption for laborers. This resulted naturally in the doctrine of a labor fund of definite magnitude consisting of requirements of life, which on one side established a physical limit for the share of the laborers in the social product, and on the other had to be fully expended in the purchase of labor-power.

Notes for this chapter

29.

Compare with regard to Quesnay the Analyse du Tableau Economique in Physiocrates, edition of Daire, part I, Paris 1846. There we read, for instance, that the annual advances consist of the expenses incurred annually for the work of cultivation; these advances must be distinguished from the primitive ones, which form the funds for the establishment of the farming business." (Page 59.) In the works of the later physiocrats, these advances are sometimes termed capital, for instance by Dupont de Nemours in his Origine et Progres d'une Science Nouvelle, 1767, Daire edition, I, page 291, where he speaks of "capital or advances," furthermore by Le Trosne: "As a result of the longer or shorter duration of the employment of manual labor, a nation possesses a considerable fund of wealth independent of its annual reproduction, and this fund is a capital accumulated in long periods and originally paid by productive acts, which are always continued and increased." (Daire, II, page 928.) Turgot employs the term capital more regularly for advances, and identifies the advances of the manufacturers still more with those of the tenants of land. (Turgot, Reflexions sur la Formation et la Distribution des Richesses, 1766.)

30.

To what extent Adam Smith has blocked his own way to an understanding of the role of labor-power in the process of self-expansion is proven by the following sentence, which places the labor of human laborers on the same level with that of laboring cattle, after the manner of the physiocrats. "Not only his (the farmer's) laboring

servants, but his laboring cattle are productive laborers." (Book II, chap. V, p. 243.)

Part II,

Volume II Chapter XI THEORIES OF FIXED AND CIRCULATING CAPITAL. RICARDO.

II.XI.1

Ricardo mentions the distinction between fixed and circulating capital merely for the purpose of illustrating the exceptions to the law of value, namely, in cases where the rate of wages affects the prices. The discussion of this point is reserved for volume III.

II.XI.2

But the original confusion is apparent at the outset in the following indifferent parallel: "This difference in the degree of durability of fixed capital, and this variety in the proportions in which the two sorts of capital may be combined." (Principles, page 25.)

II.XI.3

And if we ask him which two sorts of capital he is referring to, we are told: "The proportions too, in which the capital that is to support labor, and the capital that is invested in tools, machinery, and buildings, may be variously combined." (l. c.) In other words, fixed

capital consists of instruments of labor, and circulating capital is such as is invested in labor. "Capital that is to support labor" is a senseless term culled from Adam Smith. On one hand, the circulating capital is here confounded with the variable capital, that is to say, with that part of productive capital which is invested in labor. On the other hand, twice confounded conceptions arise for the reason that the distinction is not between variable and constant capital and derived from the process of self-expansion, but from the process of circulation repeating the old confusion of Smith.
II.XI.4

1. The difference in the degree of durability of fixed capital and the difference in the proportion in which constant and variable capital may be combined, are conceived as being of equal significance. But the last-named difference determines the difference in the production of surplus-value; the first-named, on the other hand, refers merely to the manner in which a given value is transferred from a means of production to the product, in so far as the process of self-expansion is concerned; and as for the process of circulation, this difference refers only to the period of the reproduction of the advanced capital, or, from another point of view, the time for which it has been advanced. Of course, if one looks upon the capitalist process of production in the light of a completed phenomenon, instead of seeing through its internal machinery, then these differences coincide. In the distribution of the social surplus-value among the various capitals invested in

different lines of production, the proportions of the different periods of time for which capital has been advanced (for instance, the different durability of fixed capital) and the different organic composition of capital (and therefore also the different circulation of constant and variable capital) contribute equally toward an equalization of the general rate of profit and the conversion of values into prices of production.

II.XI.5

From the point of view of the process of circulation, we have on one side the instruments of labor‘fixed capital, on the other the materials of labor and wages‘circulating capital. But from the point of view of the process of production and self-expansion, we have on one side means of production (instruments of labor and raw material)‘constant capital; on the other, labor-power‘variable capital. It is immaterial for the organic composition of capital (Book I, Chap. XXV, 2, page 683) whether the same quantity of constant capital consists of many instruments of labor and little raw material, or of much raw material and few instruments of labor, but everything depends on the proportion of the capital invested in means of production to that invested in labor-power. Vice versa, from the point of view of the process of circulation, of the difference between fixed and circulating capital, it is just as immaterial in what proportions a given amount of circulating capital is divided between raw material and wages. From one of these points of view the raw material is classed in the same

category with the instruments of labor, as compared to the capital-value invested in labor-power; from the other the capital-value invested labor-power ranks with that invested in raw material, as compared to that invested in instruments of labor.
II.XI.6

For this reason, the capital-value invested in materials of labor (raw and auxiliary materials) does not appear on either side. It disappears entirely. For it does not agree with the side of fixed capital, because its mode of circulation coincides entirely with that of the capital-value invested in labor-power. And on the other hand, it must not be placed on the side of circulating capital, because in that case the identification of the distinction between fixed and circulating capital with that of constant and variable capital, which had been carried over from Adam Smith and tacitly perpetuated, would abolish itself. Ricardo has too much logical instinct not to feel this, and for this reason that part of capital disappears entirely for him.
II.XI.7

It is to be noted at this point that the capitalist, to use the language of political economy, advances the capital invested in wages for different periods, according to whether he pays these wages weekly, monthly, or quarterly. But in reality, the reverse takes place. The laborer advances his labor to the capitalist for one week, one month, or three months, according to whether he is paid by the week, by the

month, or every three months. If the capitalist really were to buy labor-power, instead of only paying for it, in other words, if he were to pay the laborer in advance for a day, a week, a month, or three months, then he would be justified in claiming that he advanced wages for those periods. But since he does not pay until labor has lasted for days weeks, or months, instead of buying it and paying for the time which it is intended to last, we have here a confusion of terms on the part of the capitalist, who performs the trick of converting an advance of labor made to the capitalist by the laborer into an advance of money made to the laborer by the capitalist. It does not alter the case that the capitalist may not get any returns from his product by way of the circulation in the shape of a reproduction of his product or of its value (increased by the surplus value embodied in it) until after a certain length of time, according to the different periods required for its manufacture, or for its circulation. It does not concern the seller of a commodity what its buyer is going to do with it. The capitalist does not get a machine cheaper, because he must advance its entire value at one time, while this value returns to him only gradually and piecemeal by way of the circulation; nor does he pay more for cotton, because its value is assimilated fully by the product into which it is made over, and is therefore fully recovered at one time by the sale of the product.
II.XI.8

Let us return to Ricardo.

1. The characteristic mark of variable capital is that a certain given, and to that extent constant, part of capital representing a given sum of values (supposed to be equal to the value of labor-power, although it is immaterial for this discussion whether wages are equal to the value of labor-power or higher or lower than it) is exchanged for a self-expanding power which creates value, namely, labor-power, which not only reproduces the value paid for it by the capitalist, but produces a surplus-value, a value not previously existing and not paid for by any equivalent. This characteristic mark of the capital-value advanced for wages, which distinguishes it as a variable capital from constant capital, disappears whenever the capital-value advanced for wages is considered solely from the point of view of the circulation, for then it appears as a circulating capital as distinguished from the fixed capital invested in instruments of labor. This is apparent from the simple fact that it is then classed under one head, namely, under that of circulating capital, together with a part of the constant capital, namely, that which is invested in raw materials, and thus distinguished from another part of constant capital, namely, that invested in instruments of labor. The surplus-value, the very fact which converts the advanced sum of values into capital, is entirely ignored under these circumstances. Furthermore, the fact is ignored that the value added to the product by the capital invested in wages is newly produced (and therefore actually reproduced), while the value

transferred from the raw material to the product is not newly produced, not actually reproduced, but only preserved in the value of the product and merely reappears as a part of the value of the product. The distinction, as seen from the point of view of the contrast between fixed and circulating capital, consists now simply in this: The value of the instruments of labor used for the production of a certain commodity is transferred only partially to the value of the commodity and is therefore only partially recovered by its sale, is only partially and gradually returned. On the other hand, the value of the labor-power and materials of labor (raw materials, etc.) used in the production of a certain commodity is entirely assimilated by it, and is therefore entirely recovered by its sale. From this stand-point, and with reference to the process of circulation, one part of capital appears as fixed, the other as circulating. In both cases it is a matter of a transfer of definite advanced values to the product and of their recovery by the sale of the product. The only difference which is essential at this point is whether the transfer of values, and consequently their recovery, proceeds gradually or in one bulk. By this means the really decisive difference between the variable and constant capital is blotted out, the whole secret of the production of surplus-value and of capitalist production, namely, the circumstances which transform certain values and the things in which they are contained into capital, are obliterated. All constituent parts of capital are then distinguished merely by their mode of circulation (and, of course, circulation concerns itself solely with already existing values of definite

size). And the capital invested in wages then shares a peculiar mode of circulation with a part of capital invested in raw materials, partly finished articles, auxiliary substances, as distinguished from another part of capital invested in instruments of labor.
II.XI.10

It is, therefore, easy to understand why the bourgeois political economy instinctively clung to Adam Smith's confusion of the categories of "constant and variable capital" with the categories "fixed and circulating capital," and repeated it parrotlike from generation to generation for a century. The capital invested in wages is not in the least distinguished by bourgeois political economy from capital invested in raw materials, and differs only formally from constant capital to the extent that it is partially or in bulk circulated by the product. In this way the first requirement for an understanding of the actual movement of capitalist production, and thus of capitalist exploitation, is buried at one stroke. It is henceforth but a question of the reappearance of advanced values.
II.XI.11

In Ricardo the uncritical adoption of the Smithian confusion is annoying, and not only more so than in the later apologetic writers, in whom the confusion of terms is rather otherwise than annoying, but also more than in Adam Smith himself, because Ricardo is comparatively more consistent and clear in his analysis of value and

surplus-value, and indeed rescues the esoteric Adam Smith from the exoteric Adam Smith.
II.XI.12

Among the physiocrats this confusion is not found. The distinction between avances annuelles and avances primitives refers only to the different periods of reproduction of the various parts of capital, especially of agricultural capital; while their ideas concerning the production of surplus-value form a part of their theory, apart from these distinctions, being upheld by them as the salient point of this theory. The formation of surplus-value is not explained out of capital as such, but only attributed to one special sphere of production of capital, namely, agriculture.
II.XI.13

2. The essential point in the determination of variable capital‘and therefore for the conversion of any sum of values into capital‘is that the capitalist exchanges a definite given, and to that extent constant, magnitude of values for a power which creates values, a magnitude of values for a production, a self-expansion, of values. It does not alter this essential fact that the capitalist may pay the laborer either in money or in means of subsistence. This alters merely the mode of existence of the value advanced by the capitalist, seeing that in one case it has the form of money for which the laborer himself buys his means of subsistence on the market, in the other case that of means

of subsistence which he consumes directly. A developed capitalist production rests indeed on the assumption that the laborer is paid in money and more generally on the assumption that the process of production is promoted by the process of circulation, in other words, by the monetary system. But the production of surplus-value‘and consequently the capitalization of the advanced sum of values‘has its source neither in the money-form, nor in the natural form, of wages, or of the capital invested in the purchase of labor power. It arises out of the exchange of value for a power creating value, the conversion of a constant into a variable magnitude.
II.XI.14

The greater or smaller fixity of the instruments of labor depends on the degree of their durability, on their physical properties. According to the degree of their durability, other circumstances being equal, they will wear out fast or slowly, will serve a long or a short time as fixed capital. The raw material in metal factories is just as durable as the machines used in manufacturing, and more durable than many parts of these machines, such as leather, wood, etc. Nevertheless the metal serving as raw material forms a part of the circulating capital, while the instrument of labor, although probably built of the same metal, is a part of the fixed capital, when in use. Hence it is not the substantial physical nature, not its great or small durability, to which the same metal owes its place, now in the category of the fixed, now of the circulating capital. This distinction is rather due to the role

played by it in the process of production, being an object of labor in one case, and an instrument of labor in another.
II.XI.15

The function of an instrument of labor in the process of production requires generally, that is should serve for a longer or shorter period in ever renewed labor processes. Its function, therefore, determines the greater or lesser durability of its substance. But it is not the durability of the material of which it is made that gives to it the character of fixed capital. The same material, if in the shape of raw material, becomes a circulating capital, and among those economists who confound the distinction between commodity-capital and productive-capital with that between circulating and fixed capital the same material, the same machine, are circulating capital as products and fixed capital as instruments of labor.
II.XI.16

Although it is not the durability of the material of which it is made that gives to an instrument of labor the character of fixed capital, nevertheless its role as such an instrument requires that it should be composed of relatively durable material. The durability of its material is, therefore, a condition of its function as an instrument of labor, and consequently the material basis of the mode of circulation which renders it a fixed capital. Other circumstances being equal, the greater or lesser durability of its material endows it in a higher or lower

degree with the quality of fixedness, in other words, its durability is closely interwoven with its quality of being a fixed capital.
II.XI.17

If the capital-value advanced for labor-power is considered exclusively from the point of view of circulating capital, in distinction from fixed capital, and if consequently the distinction between constant and variable capital is confounded with that between fixed and circulating capital, then it is natural to attribute the character of circulating capital, in distinction from fixed capital, to the substantial reality of the capital invested in labor-power, just as the substantial reality of the instrument of labor constitutes an essential element of its character of fixed capital, and to determine the circulating capital by the substantial reality of the variable capital.
II.XI.18

The real substance of the capital invested in wages is labor itself, active, value creating, living labor, which the capitalist trades for dead, materialized labor and embodies in his capital, by which means alone the value in his hands is transformed into a self-expanding value. But this self expanding power is not sold by the capitalist. It is always solely a constituent part of his productive capital, the same as his instruments of labor; it is never a part of his commodity-capital, as, for instance, the finished product which he sells. Within the process of production, as parts of his productive capital, the instruments of labor

are not distinguished from labor-power as fixed capital any more than the raw materials and auxiliary substances are identified with it as circulating capital. Labor confronts both of them as a personal factor, while they are objective things‘speaking from the point of view of the process of production. Both of them stand opposed to labor-power, to variable capital, as constant capital‘speaking from the point of view of the process of self-expansion. Or, if mention is to be made here of a difference in substance, so far as it affects the process of circulation, it is only this: It follows from the nature of value which is nothing but materialized labor, and from the nature of active labor-power which is nothing but labor in process of materialization, that labor-power continually creates value and surplus-value during the process of its function; that the thing which on the part of labor-power appears as motion and a creation of value, appears on the part of its product as rest and as a created value. If the labor-power has performed its function, then capital no longer consists of labor-power on one side, and means of production on the other. The capital value invested in labor is then value added with a surplus-value to the product. In order to respect the process, the product must be sold, and new labor-power must be bought with the money so obtained, in order to be once more embodied in the productive capital. It is this which then gives to the capital invested in labor-power, and to that invested in raw materials, etc., the character of circulating capital as distinguished from the capital remaining fixed in instruments of labor.
II.XI.19

But if the secondary quality of the circulating capital, which it shares with a part of the constant capital (raw and auxiliary materials), is made the essential mark of capital invested in labor-power, to wit, the transfer of the full value invested in it to the product in whose manufacture it is consumed, instead of a gradual and successive transfer such as takes place in the case of the fixed capital, and the consequent total reproduction of this value by the sale of the product, then the value invested in wages must likewise consist, not of active labor-power, but of the material elements which the laborer buys with his wages, in other words, it must consist of that part of the social commodity-capital which passes into the individual consumption of the laborer, of means of subsistence. In that case, the fixed capital would consist of the more durable instruments of labor which are reproduced more slowly, and the capital invested in labor-power would consist of the means of subsistence, which must be more rapidly reproduced. II.XI.20

However, the boundaries of greater or smaller durability pass imperceptibly into one another.

"The food and clothing consumed by the laborer, the buildings in which he works, the implements with which his labor is assisted, are all of a perishable nature. There is, however, a vast difference in the time for which these different capitals will endure: a steam-engine will

last longer than a ship, a ship than the clothing of the laborer, and the clothing of the laborer longer than the food which he consumes." (Ricardo, etc., page 27.)

II.XI.21

Ricardo does not mention the house, in which the laborer lives, his tools of consumption, such as knives, forks, dishes, etc., all of which have the same quality of durability as the instruments of labor. The same things, the same classes of things, appear in one place as means of consumption, in another as instruments of labor.
II.XI.22

The difference, as stated by Ricardo, is this: "According as capital is rapidly perishable and requires to be frequently reproduced or is of slow consumption, it is classed under the heads of circulating or fixed capital."
II.XI.23

He remarks in addition thereto: "A division not essential, and in which the line of demarcation cannot be accurately drawn."
II.XI.24

Thus we have once more arrived among the physiocrats, where the distinction between avances annuelles and avances primitives was one

referring to the period of consumption, and consequently also to the different time of reproduction of the invested capital. Only, that which in their case constitutes a phenomenon important for society and for this reason is assigned in the Tableau Economique a place of interrelation with the process of circulation, becomes here, in Ricardo's own words, a subjective and unessential division.
II.XI.25

As soon as the capital-value invested in labor-power differs from that invested in instruments of labor only by its period of reproduction and term of circulation, as soon as one part of capital consists of means of subsistence, another of instruments of labor, so that these differ from those only by the degree of their durability, which durability is further different for the various kinds of each class, it follows as a matter of course that all specific difference between the capital invested in labor-power and that invested in means of production is obliterated.
II.XI.26

This runs very much counter to Ricardo's theory of value, likewise to his theory of profit, which is actually a theory of surplus-value. He does not consider the difference between fixed and circulating capital any further than is required by the way in which different proportions of both of them, in equal capitals invested in different branches of production, influence the law of value, particularly the extent to which

an increase or decrease of wages in consequence of these conditions affects prices. But even within this restricted analysis, he commits the gravest errors on account of the confusion in the definitions of fixed and circulating, constant and variable capital. Indeed, he starts his analysis on an entirely wrong basis. In the first place, in so far as the capital-value invested in labor-power has to be considered under the head of circulating capital, he gives a wrong definition of circulating capital and misunderstands particularly the circumstances which place the capital-value invested in labor-power under this heading. In the second place, he confounds the definition, according to which the capital-value invested in labor-power is a variable capital, with that according to which it is circulating as distinguished from fixed capital. II.XI.27

It is evident from the beginning that the definition of capital-value invested in labor-power as circulating capital is a secondary one, obliterating its specific difference in the process of production. For on one hand, the values invested in labor-power are identified in this definition with those invested in raw materials. A classification which identifies a part of the constant capital with the circulating capital does not appreciate the specific difference of variable from constant capital. On the other hand, while the values invested in labor-power are indeed distinguished from those invested in instruments of labor, the distinction is based only on the fact that the values incorporated in them are transferred to the product in different periods of time, not

on the fact that this transfer is significant for the radically different manner in which either of them passes into the production of values.
II.XI.28

In all of these cases, it is a question of the manner in which a given value, invested in the process of production of commodities,, whether the investment be made in wages, in the price of raw materials, or in that of instruments of labor, is transferred to the product, then circulated by it, and returned to its starting point by the sale of the product, or reproduced. The only difference lies here in the "how," in the particular manner of the transfer, and therefore also in the circulation of this value.
II.XI.29

Whether the price of labor-power previously agreed upon by contract in each case is paid in money or in means of subsistence, does not alter in any way the fact that it is a fixed price. However, it is evident in the case of wages paid in money, that it is not the money which passes into the process of production in the way that the value as well as the material of the means of production do. But if the means of subsistence which the laborer buys with his wages are directly classed in the same category with raw materials, as the material form of circulating capital distinguished from instruments of labor, then the matter assumes a different aspect. While the value of these things, the instruments of labor, is transferred to the product in

the process of production, the value of those things, the means of subsistence, reappears in the labor-power that consumes them and is likewise transferred to the product by the exertion of this power. In every one of these cases it is a question of the mere reappearance of the values invested in production by means of transfer to the product. The physiocrats for this reason took this aspect of the matter seriously and denied that industrial labor could create any values. This is shown by a previously quoted passage of Wayland, in which he say that it is immaterial in which form the capital reappears, and that the different kinds of food, clothing, and shelter which are required for the existence and well-being of man are likewise changed, being consumed in the course of time while their value reappears. (Elements of Political Economy, pages 31 and 32.) The capital-values invested in production in the form of means of production and means of subsistence both reappear in the value and means of subsistence both reappear in the value of the product. By this means the transformation of the capitalist process of production into a complete mystery is happily accomplished and the origin of the surplus-value incorporated in the product is entirely concealed.
II.XI.30

At the same time, this perfects the fetishism typical of bourgeois political economy, which pretends that the social and economic character of things, arising from the process of social production, is a natural character due to the material substance of those things. For

instance, instruments of labor are designated as fixed capital, a scholastic mode of definition which leads to contradictions and confusion. Just as we demonstrated in the case of the process of production (Vol. I, chapter VII), that it depends on the role, the function, performed by the various material substances in a certain process of production, whether they served as instruments of labor, raw materials, or products, just so we now claim that instruments of labor are fixed capital only in cases where the process of production is a capitalist process of production and the means of production are, therefore, capital and possess the economic form and social character of capital. And in the second place, they are fixed-capital only when they transfer their value to the product in a certain peculiar way. Unless they do so, they remain instruments of labor without being fixed-capital. In the same way, auxiliary materials, such as manure, if they transfer their value in the same peculiar manner as the greater part of the instruments of labor, become fixed capital, although they are not instruments of labor. It is not the definitions, which are essential in determining the character of these things. It is their definite functions which express themselves in definite categories. II.XI.31

If it is considered as one of the qualities exhibited by means of subsistence under all circumstances to be capital invested in wages, then it will also be a quality of this "circulating" capital "to support labor." (Ricardo, page 25.) If the means of subsistence were not

"capital," then they would not support labor, according to this; while it is precisely their character of capital which endows them with the faculty of supporting capital by means of the labor of others.
II.XI.32

If means of subsistence are of themselves capital circulating after being converted into wages, it follows furthermore that the magnitude of wages depends on the proportion of the number of laborers to the existing quantity of circulating capital‘a favorite economic law‘while as a matter of fact the quantity of means of subsistence withdrawn from the market by the laborer, and the quantity of means of subsistence available for the consumption of the capitalist, depend on the proportion of the surplus-value to the price of labor.
II.XI.33

Ricardo as well as Barton*31 everywhere confound the relation between variable and constant capital with that between circulating and fixed capital. We shall see later, to what extent this vitiates Ricardo's analyses concerning the rate of profit.
II.XI.34

Ricardo furthermore identifies the distinctions which arise in the turn-over from other causes than the difference between fixed and circulating capital, with these same differences: "It is also to be observed that the circulating capital may circulate, or be returned to

its employer, in very unequal times. The wheat bought by a farmer to sow is comparatively a fixed capital to the wheat purchased by a baker to make into loaves. The one leaves it in the ground, and can obtain no return for a year: the other can get it ground into flour, sell it as bread to his customers, and have his capital free, to renew the same, or commence any other employment in a week." (Pages 26 and 27.)
II.XI.35

In this passage, it is characteristic that wheat, although not serving as a means of subsistence, but as raw material when used for sowing, is supposed in the first place to be circulating capital, because it is in itself a food, and in the second place a circulating capital, because its reproduction extends over one year. However, it is not so much the slow or rapid reproduction which makes a fixed capital of a means of production, but rather the manner in which it transfers its value to the product.
II.XI.36

The confusion caused by Adam Smith has brought about the following results:
II.XI.37

1. The distinction between fixed and circulating capital is confounded with that between productive capital and commodity-capital. For

instance, a machine is said to be circulating capital when on the market as a commodity, and fixed capital when incorporated in the process of production. Under these circumstances, it is impossible to ascertain why one kind of capital should be more fixed or circulating than another.
II.XI.38

2. All circulating capital is identified with capital invested, or about to be invested, in wages. This is the case with John Stewart Mill, and others.
II.XI.39

3. The difference between variable and constant capital, which had been previously mistaken by Barton, Ricardo, and others, for that between circulating and fixed capital, is finally identified with this last-named difference, for instance by Ramsay, who calls all means of production, raw materials, etc., including instruments of labor, fixed capital, and only that which is invested in wages circulating capital. But on account of the reduction of the problem to this form, the real difference between variable and constant capital is not understood.
II.XI.40

4. The latest English, and especially Scotch, economists, who look upon all things from the inexpressibly petty point of view of a bank clerk, such as MacLeod, Patterson, and others, transform the difference

between fixed and circulating capital into one of money at call and money not at call.

Notes for this chapter

31.
Observations on the Circumstances Which Influence the Condition of the Labouring Classes of Society, London, 1817.

Part II,

Volume II Chapter XII THE WORKING PERIOD.

II.XII.1

Take two branches of production, with equal working days, for instance of ten hours each, one of them a cotton spinnery, the other a locomotive factory. In one of these branches, a definite quantity of finished product, cotton yarn, is completed daily, or weekly; in the other, the productive process may have to be repeated for three months in order that the finished product, a locomotive, may be ready. In one case, the product is made up of separate lots, and the same labor is repeated daily or weekly. In the other case, the labor process is continuous and extends over a prolonged number of daily labor-processes which, in their continuity, result in the finished product. Although the duration of the working day is the same in both

cases, there is a marked difference in the duration of the productive act, that is to say, in the duration of the repeated labor-processes, which are required in order to complete the finished product, to get it ready for its role as a commodity on the market, in other words, to convert it from a productive into a commodity-capital. The difference between fixed and circulating capital has nothing to do with this. The difference just indicated would exist, even if the very same proportions of fixed and circulating capital were employed in both branches of production.

II.XII.2

These differences in the duration of the productive acts are found not alone in two different spheres of production, but also within one and the same sphere of production, according to the volume of the intended product. An ordinary residence house is built in less time than a large factory and therefore requires a smaller number of consecutive labor-processes. While the building of a locomotive requires three months, that of an ironclad requires one year or more. The production of grain extends over nearly a year, that of horned cattle over several years, and the production of timber may require from twelve to one hundred years. A country road may be completed in a few months, while a railroad requires years. An ordinary carpet is made in about a week, while Gobelins requires years, etc. The differences in the duration of the productive act are, therefore, infinitely manifold.

It is evident that a difference in the duration of the productive act must beget a difference in the velocity of the turn-over, even if the invested capitals are equal, in other words, must make a difference in the time for which a certain capital is advanced. Take it that a cotton spinnery and a locomotive factory employ the same amount of capital, that the proportion between their constant and variable capital is the same, likewise that between fixed and circulating capital, and that finally their working day is of equal length and its division between necessary and surplus-labor the same. In order to eliminate, furthermore, all the external circumstances arising out of the process of circulation, we shall assume that both the yarn and the locomotive are made to order and will be paid on delivery of the finished product. At the end of the week, the cotton spinner recovers his outlay for circulating capital (making exception of surplus-value), likewise the wear and tear of fixed capital incorporated in the value of the yarn. He can, therefore, repeat the same cycle with the same capital. It has completed its turn-over. The locomotive manufacturer, on the other hand, must advance even new capital for wages and raw material every week for three months in succession, and it is only after three months, after the delivery of the locomotive, that the circulating capital gradually invested in one and the same productive act for the manufacture of one and the same commodity once more returns to a form in which it can renew its cycle. The wear and tear

of his machinery is likewise covered only at the end of three months. The investment of the one is made for one week, that of the other is the investment of one week multiplied by twelve. All other circumstances being assumed as equal, the one must have twelve times more circulating capital at his disposal than the other.
II.XII.4

It is, however, an immaterial condition that the capitals advanced weekly should be equal. Whatever may be the quantity of the invested capital, it is advanced for one week in one case, and for twelve weeks in the other, before the same operation can be repeated with it, or another inaugurated.
II.XII.5

The difference in the velocity of the turn-over, or in the length of time for which the capital is advanced before the same capital-value can be employed in a new process of production or self-expansion, arises here from the following circumstances:
II.XII.6

Take it that the manufacture of a locomotive, or of any other machine, requires 100 working days. So far as the laborers employed in the manufacture of yarn or of the locomotive are concerned, 100 working days constitute in either case a discontinuous magnitude, representing, according to our assumption, 100 consecutive, but

separate labor-processes of ten hours each. But with reference to the product‘the machine‘these 100 working days are a continuous magnitude, a working day of 1,000 working hours, one single connected act of production. I call such a working day, which is formed by the succession of more or less numerous connected working days, a working period. If we speak of a working day, we mean the length of working time during which the laborer must daily spend his labor-power, must work day by day. But if we speak of a working period, then we mean a number of consecutive working days required in a certain branch of production for the completion of the finished product. In this case, the product of every working day is but a partial one, being elaborated from day to day and receiving its complete form only at the end of a longer or shorter period of labor, when it is at last a finished use-value.
II.XII.7

Interruptions, disturbances of the process of social production, for instance, by crises, therefore have very different effects on labor products of a discontinuous nature and those that require for their completion a prolonged and connected working period. In one case, today's production of a certain mass of yarn, coal etc., is not followed by tomorrow's production of yarn, coal, etc. Not so in the case of ships, buildings, railroads, etc. It is not only the work which is interrupted, but also a connected working period. If the work is not continued, the means of production and labor so far expended in its

manufacture are wasted. Even if work is resumed, a deterioration has taken place in the meantime.
II.XII.8

For the entire duration of the working period, the value daily transferred to the product by the fixed capital accumulates successively until the product is finished. In this way, the difference between the fixed and circulating capital is revealed in its practical significance. The fixed capital is invested in the process of production for a long period, it need not be reproduced until after the expiration of, perhaps, a period of several years. Whether a steam-engine transfers its value daily to some yarn, which is the product of a discontinuous labor-process, or for three months to a locomotive, which is the product of a continuous process, is immaterial for the investment of the capital required for the purchase of the steam-engine. In the one case, its value is recovered in small doses, for instance, weekly, in the other case in larger quantities, for instance, quarterly. But in either case, the reproduction of the steam-engine may not take place until after twenty years. So long as every individual period which returns a part of the value of the steam engine by the sale of the product, is shorter than the lifetime of this engine, the same engine continues its service in successive working periods of the process of production.
II.XII.9

It is different with the circulating portions of the invested capital. The labor-power bought for this week is consumed in the course of the same week and transferred to the product. It must be paid for at the end of this week. And this investment of capital in labor-power is repeated every week for three months without enabling the capitalist to use the investment of this part of capital in this week's labor-power for the purchase of next week's. Every week, additional capital must be invested for the payment of labor-power, and, leaving aside the question of credit, the capitalist must be able to advance wages for three months, even if he pays them only in weekly installments. It is the same with the other portion of circulating capital, the raw and auxiliary materials. One shift of labor after another is transferred to the product. It is not alone the value of the expended labor-power which is continually transferred to the product during the labor-process, but also surplus-value. This product, however, is unfinished, it has not yet the form of a finished commodity, it cannot yet circulate. This applies likewise to the capital-value transferred to the product by the raw and auxiliary materials.
II.XII.10

According as the working period required by the specific nature of the product, or by the useful effect aimed at, is short or long, a continuous investment of additional circulating capital (wages, raw, and auxiliary materials) is required, none of its parts being in a from adapted for circulation and for the promotion of the repetition of the

same operation. Every one of these parts is on the contrary held by the growing product as one of its parts in the sphere of production, in the form of productive capital. Now, the time of turn-over is equal to the sum of the time of production and the time of circulation. Hence a prolongation of the time of production reduces the velocity of the turn-over quite as much as the prolongation of the time of circulation. In the present case, the following must be furthermore noted:

1. The prolonged stay in the sphere of production. The capital invested, for instance, in the labor-power, raw, and auxiliary materials of the first week, the same as the portions of value transferred to the product by the fixed capital, are held in the sphere of production for the entire term of three months, and being incorporated in a growing and as yet unfinished product, cannot pass into the circulation of commodities.

2. Since the working period required for the completion of the productive act lasts three months, and forms one connected labor-process, a new quantity of circulating capital must be continually added week after week to the preceding quantity. The amount of the successively invested additional capital grows, therefore, with the length of the working period.

II.XII.11

We have assumed that equal capitals are invested in the spinnery and the machine factory, that these capitals contain equal proportions of constant and variable, fixed and circulating capital, that the working days are equal, in short, that all circumstances are equal with the exception of the duration of the working period. In the first week, the outlay for both is the same, but the product of the spinner can be sold and the returns from the sale employed in the purchase of new labor-power and raw materials, in short, production can be resumed on the same scale. The machine manufacturer, on the other hand, cannot reconvert the circulating capital expended in the first week into money until at the end of three months, when his product is finished and he can begin operation afresh. There is, in other words, first a difference in the return of the same quantity of capital invested. But, in the second place, the same amount of productive capital is employed during the three months in the spinnery and in the machine factory, but the magnitude of the outlay of capital in the case of the yarn manufacturer is different from that of the machine manufacturer. For in the one case, the same capital is rapidly renewed and the same operation can be repeated, while in the other case, the capital is renewed by relatively slow degrees, so that ever new quantities of capital must be added to the old up to the time of the completion of the term of its reproduction. It is, therefore, not only the time of reproduction of definite portions of capital, or the time of investment, which is different, but also the quantity of the capital to be advanced according to the duration of the productive process, although the

capital employed daily or weekly is the same. This circumstance is worthy of note for the reason that the time of investment may be prolonged, as we shall see in the cases treated in the next chapter, without thereby increasing the amount of the capital to be invested in proportion to this increase in time. The capital must be advanced for a longer time, and a larger amount of capital is held in the form of productive capital.
II.XII.12

In undeveloped stages of capitalist production, enterprises requiring a long working period, and hence a large investment of capital for a long time, such as the building of streets, canals, etc., especially when they can be carried out only on a large scale, are either not managed on a capitalist basis at all, but rather at the expense of the municipality or state (in older times generally by means of forced labor, so far as labor-power was concerned); or, such products as require a long working period are manufactured only for the smaller part by the help of the private resources of the capitalist himself. For instance, in the building of a house, the private person for whose account the house is built advances money in instalments to the contractor. The owner thus pays for his house in instalments to the extent that his productive process proceeds. But in the developed capitalist era, when on the one hand masses of capital are concentrated in the hands of single individuals, while on the other hand associations of capitalists (stock companies) appear by the side

of individual capitalists and the credit system is simultaneously developed, a capitalist contractor builds only in exceptional cases for the order of private individuals. He makes it his business to build rows of houses and sections of cities for the market, just as individual capitalists make it their business to build railroads as contractors. II.XII.13

To what extent capitalist production has revolutionized the building of houses in London, is shown by the testimony of a contractor before the banking committee of 1857. When he was young, he said, houses were generally built to order and the payments made in instalments to the contractor when certain stages of the building were completed. Very little was built on speculation. Contractors used to consent to this mainly to give their hands regular employment and thus keep them together. In the last forty years, all this has changed. Very little is now built for order. If a man wants a house, he selects one from among those built on speculation or still in process of building. The contractor no longer works for his customers, but for the market. Like every other industrial capitalist, he is compelled to have finished articles on the market. While fomerly a contractor had perhaps three or four houses at a time building for speculation, he must now buy a large piece of real estate (which, in continental language means rent it for ninety-nine years, as a rule), build from 100 to 200 houses on it, and thus engage in an enterprise which exceeds from twenty to fifty times his resources. The funds are secured by taking up

mortgages, and money is placed at the disposal of the contractor to the extent that the building of the individual houses is progressing. Then, if a crisis comes along and interrupts the payment of the advance instalments, the entire enterprise generally collapses. In the best case, the houses remain unfinished until the coming of better times, in the worst case they are sold at auction at half-price. Without building on speculation, and that on a large scale, no contractor can get along nowadays. The profit from building itself is extremely small. The main profit of the contractor comes from raising the ground rent, by a careful selection and utilization of the building lots. By this method of speculation anticipating the demand for houses nearly the whole of Belgravia and Tyburnia, and the countless thousands of villas in the vicinity of London have been built. (Abbreviated from the Report of the Select Committee on Bank Acts. Part I, 1857, Evidence, Question 5413-18; 5535-36.)
II.XII.14

The execution of enterprises with considerably long working periods and on a large scale does not fall fully within the province of capitalist production, until the concentration of capitals is very pronounced, and the development of the credit system offers, on the other hand, the comfortable expedient of advancing another's money instead of one's own capital and thus risking its loss. It goes without saying that the fact whether or not the capital advanced in production

belongs to the one who uses it or to some one else has no influence on the velocity and time of turn-over.
II.XII.15

The circumstances which augment the product of the individual working day, such as co-operation, division of labor, employment of machinery, shorten at the same time the working period of connected acts of production. Thus machinery shortens the building time of houses, bridges, etc., a mowing and threshing machine, etc., shorten the working period required to transform the ripe grain into a finished product. Improved shipbuilding reduces by increased speed the time of turn-over of capital invested in navigation. Such improvements as shorten the working period and thereby the time for which circulating capital must be advanced are, however, generally accompanied by an increased outlay for fixed capital. On the other hand, the working period in certain branches of production may be shortened by the mere extension of co-operation. The completion of a railroad is hastened by the employment of huge armies of laborers and the carrying on of the work in many places at once. The time of turn-over is in that case hastened by an increase of the advanced capital. More means of production and more labor-power must be combined under the command of the capitalist.
II.XII.16

While the shortening of the working period is thus mostly accompanied by an increase of the capital advanced for this shortened time, so that the amount of capital advanced increases to the extent that the time for which the advance is made decreases, it must be noted that the essential point, apart from the existing amount of social capital, is the degree in which the means of production or subsistence, or their control, is scattered or concentrated in the hands of individual capitalists, in other words, the degree of concentration of capitals. Inasmuch as credit promotes the concentration of capital in one hand, it hastens and intensifies by its contribution the shortening of the working period and thereby of the time of turn-over.
II.XII.17

In branches of production in which the working period is continually, or occasionally, determined by definite natural conditions, no shortening of the working period can take place by the above mentioned means. Says Walter Good, in his "Political, Agricultural, and Commercial Fallacies," (London, 1866, page 325): "The expression, 'more rapid turn-over' cannot be applied to grain crops, as only one turn-over per year is possible. As for cattle, we will simply ask: How is the turn-over of bi- or tri-ennial sheep, and of quardrennial and quinquennial oxen to be hastened?"
II.XII.18

The necessity of securing ready money (for instance, for the payment of fixed tithes, such as taxes, groundrent, etc,.) solves this question by selling or killing cattle before they have reached the normal economic age, to the great detriment of agriculture. This also causes finally a rise in the price of meat. We read on pages 12 and 13 of the above named work that the people who formerly were mainly engaged in the raising of cattle for the purpose of supplying the pastures of the midland counties in summer, and the stables of the eastern counties in winter, have been so reduced by the fluctuations and sinking of the corn prices that they are glad to avail themselves of the high prices of butter and cheese; they carry the former every week to the market, in order to cover their running expenses, while they take advance payments on the cheese from some middleman who calls for its as soon as it can be transported and who, of course, makes his own prices. As a result of this, agriculture being ruled by the laws of political economy, the calves, which were formerly taken south from the dairy districts to be raised, are now sacrificed in masses, frequently when they are only eight or ten days old, in the stock yards of Birmingham, Manchester, Liverpool, and other neighboring cities. But if the malt were untaxed, the farmers would not only have made more profits and been able to keep their young cattle until they would have been older and heavier, but the malt would also have served instead of milk for the raising of calves by those who keep no cows: and the present appalling want of young cattle would have been avoided to a large extent. If the raising of

calves is now recommended to those small farmers, they replay: "We know very well that it would pay to raise them on milk, but in the first place we should have to lay out money, and we cannot do that, and in the second place we should have to wait long for the return of our money, while in dairying we get returns immediately."
II.XII.19

If the prolongation of the turn-over has such consequences for the smaller English farmers, it is easy to see what disadvantages it must produce for the small farmers of the continent.
II.XII.20

To the extent that the working period lasts, and thus the period required for the completion of the commodity ready for circulation, the value successively yielded by the fixed capital accumulates and the reproduction of this value is retarded. But this retardation does not cause a renewed outlay of fixed capital. The machine continues its function in the process of production, no matter whether the reproduction of its wear and tear in the form of money takes place slowly or rapidly. It is different with the circulating capital. Not only must capital be tied up for a longer time in proportion as the working period extends, but new capital must also be continually advanced in the form of wages, raw and auxiliary materials. A retardation of the reproduction has therefore a different effect on either capital. No matter whether reproduction proceeds rapidly or slowly, the fixed

capital continues its functions. But the circulating capital becomes unable to perform its functions, if the reproduction is retarded, if it is tied up in the form of unsold, or unfinished and as yet unsalable, products, and if no additional capital is at hand for its reproduction in natural form.
II.XII.21

"While the farmer is starving, his cattle thrive. There had been considerable rain and the grass pasture was luxuriant. The Indian farmer will starve alongside of a fat ox. The precepts of superstition seem cruel for the individual, but they are preserving society; the preservation of the cattle secures the continuation of agriculture and thereby the sources of future subsistence and wealth. It may sound hard and sad, but it is so: In India a man is easier replaced than an ox." (Return, East Indian. Madras and Orissa Famine. No. 4, page 4.) Compare with the preceding the statement of Manara-Dharma-Sestra, chapter X, page 862; "The sacrifice of life without any reward, for the purpose of preserving a priest or a cow...can secure the salvation of these low-born tribes."
II.XII.22

Of course, it is impossible to deliver a quinquennial animal before the lapse of five years. But a thing that is possible is the getting ready of the animals for their destination by changed modes of treatment. This was accomplished particularly by Bakewell. Formerly, English sheep,

like the French as late as 1855, were not ready for slaughtering until after four or five years. By the Bakewell system, even a one year old sheep may be fattened, and in every case it is completely grown before the end of the second year. By means of careful sexual selection, Bakewell, a farmer of Dishley Grange, reduced the skeleton of sheep to the minimum required for their existence. His sheep are called the New Leicesters. "The breeder can now supply three sheep for the market in the same time that he formerly required for one, and at that with a broader, rounder, and larger development of the parts giving the most meat. Nearly their entire weight is pure meat." (Lavergne, The Rural Economy of England, etc., 1855, page 22.)
II.XII.23

The methods which shorten the working periods are applicable to different branches of industry only to a very different degrees and do not compensate for the differences in the length of time of the various working periods. To stick to our illustration, the working period required for the building of a locomotive may be absolutely shortened by the employment of new implement machines. But if at the same time the finished product turned out daily or weekly by a cotton spinnery is still more rapidly increased, then the length of the working period in machine building, compared with that in spinning, has nevertheless been relatively lengthened.

Part II,

Volume II Chapter XIII THE TIME OF PRODUCTION.

II.XIII.1

The working time is always the time of production, that is to say, the time during which capital is held in the sphere of production. But vice versa, not all time during which capital is engaged in the process of production is necessarily a working time.

II.XIII.2

It is not in this case a question of interruptions of the labor-process conditioned on natural limitations of labor-power itself, although we have seen to what extent the mere circumstance that fixed capital, factory buildings, machinery, etc., are unemployed during pauses of the labor-process, became one of the motives for an unnatural prolongation of the labor-process and for day and night work. It is rather a question of an interruption independent of the length of the labor-process and conditioned on the nature and the production of the goods themselves, during which the object of labor is for a longer or shorter time subjected to lasting natural processes, causing physical, chemical, or physiological changes and suspending the labor-process entirely or partially.

II.XIII.3

For instance, grape juice, after being pressed, must ferment for a while and then rest for some time, in order to reach a certain degree of perfection. In many branches of industry the product must pass through a drying process, for instance in pottery, or be exposed to certain conditions which change its chemical nature, for instance in bleaching. Winter grain needs about nine months to mature. Between the time of sowing and harvesting the labor-process is almost entirely suspended. In timber raising, after the sowing and the incidental preliminary work are completed, the seed may require 100 years in order to be transformed into a finished product, and during all this time it requires very insignificant contributions of labor.
II.XIII.4

In all these cases, additional labor is contributed only occasionally during a large portion of the time of production. The condition described in the previous chapter, where additional capital and labor must be contributed to the capital already tied up in the process of production, is found here only in longer or shorter intervals.
II.XIII.5

In all these cases, therefore, the time of production of the advanced capital consists of two periods: One period, during which the capital is engaged in the labor-process; a second period, during which its form of existence‘being that of an unfinished product‘is surrendered to the influence of natural process, without being in the labor-process. It

does not alter the case, that these two periods of time may cross and pervade one another here and there. The working period and the period of production do not coincide. The time of production is greater than the working period. But the product is not finished until the time of production is completed, only then it is mature and can be transformed from a productive into a commodity-capital. According to the length of the period of production not consisting of working time, the period of turn-over is likewise prolonged. In so far as the time of production in excess of the working time is not once and for all determined by definite natural laws, such as regulate the maturing of grain, the growth of an oak, etc., the period of turn-over may be more or less shortened by an artificial reduction of the time of production. Such instances are the introduction of chemical bleaching instead of lawn bleaching, the improvement of drying apparatus in drying processes. Or, in tanning, where the penetration of the tannic acid into the skins, by the old method, required from six to eighteen months, while the new method, by means of the air-pump, does it in one and a half to two months. (J. G. Courcelle-Seneuil, Traite theorique et pratique des Entreprises industrielles, etc., Paris, 1857, second edition.) The most magnificent illustration of an artificial abbreviation of the time of production which is taken up with natural processes is furnished by the history of the production of iron, more especially the conversion of raw iron into steel during the last 100 years, from the puddling process discovered about 1780 to the modern Bessemer process and the latest methods introduced since

then. The time of production has been enormously abbreviated, but the investment of fixed capital has increased accordingly.
II.XIII.6

A peculiar illustration of the divergence of the time of production from the working time is furnished by the American manufacture of shoe-lasts. In this case, a considerable part of the expense is due to the fact that the wood must be stored for drying for as much as 18 months, in order that the finished last may not change its form by warping. During this time, the wood does not pass through any other labor-process. The period of turn-over of the invested capital is, therefore, not determined solely by the time required for the manufacture of the lasts, but also by the time during which the wood lies unproductive in the drying process. It is for 18 months in the process of production before it can enter into the labor-process proper. This illustration shows at the same time, how it is that the periods of turn-over of different parts of the total circulating capital may differ in consequence of conditions, which do not owe their existence to the sphere of circulation, but to that of production.
II.XIII.7

The difference between the time of production and the working time becomes especially apparent in agriculture. In our moderate climates, the land bears grain once a year. The abbreviation or prolongation of the period of production (for winter grain an average of nine months)

is itself dependent on the change of good or bad seasons, and for this reason it cannot be as accurately determined before-hand and controlled as in industry properly so called. Only such by-products as milk, cheese, etc., are successively producible and saleable in short periods. On the other hand, the working time meets with the following conditions: "The number of working days in the various regions of Germany, with regard to the climatic and other determining conditions, will permit the assumption of the three following main working periods: For the spring period, from the middle of March or beginning of April to the middle of May, about 50 to 60 working days; for the summer period, from the beginning of June to the end of August, 65 to 80; and for the fall period, from the beginning of September to the end of October, or the middle or end of November, 55 to 75 working days. For the winter, only the chores customary for that time, such as the hauling of manure, wood, market goods, and building materials, are to be noted." (F. Kirchhoff, Handbuch der landwirthschaftlichen Betriebslehre. Dresden, 1852, page 160.)
II.XIII.8

To the extent that the climate is unfavorable, the working period of agriculture, and thus the outlay for capital and labor, is crammed into a short space of time. Take, for instance, Russia. In some of the northern regions of that country agricultural labor is possible only during 130 to 150 days per year. It may be imagined what would be the losses of Russia, if 50 out of its 65 million of European

inhabitants would remain unemployed during six or eight months of the winter, when all field work must stop. Apart from the 200,000 farmers, who work in the 10,500 factories of Russia, local house industries have everywhere developed in the villages. There are some villages in which all farmers have been for generations weavers, tanners, shoemakers, locksmiths, knifemakers, etc. This is particularly the case in the provinces of Moscow, Vladimir, Kaluga, Kostroma, and Petersburg. By the way, this house-industry is being more and more pressed into the service of capitalist production. The weavers, for instance, are supplied with woof and web directly by merchants or middlemen. (Abbreviated from the Reports by H. M. Secretaries of Embassy and Legation, on the Manufactures, Commerce, etc., No 8, 1865, pages 86 and 87.) We see here that the divergence of the period of production from the working period, the latter being but a part of the former, forms the natural basis for the combination of agriculture with an agricultural side-industry, and that this side-industry, on the other hand, offers points of vantage to the capitalist, who intrudes first in the person of the merchant. When capitalist production later accomplishes the separation of manufacture and agriculture, the rural laborer becomes ever more dependent on accidental side-employment and his condition is correspondingly lowered. For the capital, all the differences are compensated in the turn-over. Not so for the laborer.

II.XIII.9

While in most branches of industry proper, of mining, transportation, etc., the work proceeds uniformly, the working time being the same from year to year, and the outlay for the capital passing daily into circulation being uniformly distributed, making exception of such abnormal interruptions as fluctuations of prices, business depressions, etc.; while furthermore also the recovery of the circulating capital, or its reproduction, is uniformly distributed throughout the year, provided the conditions of the market remain the same‘there is, on the other hand, the greatest inequality in the outlay of circulating capital in such investments of capital, in which the working time constitutes only a part of the time of production, while the recovery of the capital takes place in bulk at a time determined by natural conditions. If such a business is managed on the same scale as one with a continuous working period, that is to say, if the amount of the circulating capital to be advanced is the same, it must be advanced in larger doses at a time and for longer periods. The durability of the fixed capital differs here considerably from the time in which it actually performs a productive function. Together with the difference between working time and time of production, the time of investment of the employed fixed capital is, of course, likewise continually interrupted for a longer or shorter time, for instance, in agriculture in the case of laboring cattle, implements and machines. In so far as this fixed capital consists of laboring cattle, it requires continually the same, or nearly the same, amount of expenditure for feed, etc., as it does during its working time. In the case of inanimate instruments of labor, disuse

also implies a certain amount of depreciation. Hence there is an appreciation of the product in general, seeing that the transfer of value is not calculated by the time in which the fixed capital performs its function, but by the time in which it depreciates in value. In such branches of production as these, the disuse of the fixed capital, whether combined with current expenses or not, forms as much a condition of its normal employment as, for instance, the waste of a certain quantity of cotton in spinning; and in the same way the labor-power unproductively consumed in any labor-process under normal conditions, and inevitably so, counts as much as its productive consumption. Every improvement which reduces the unproductive expenditure of instruments of labor, raw material, and labor-power, also reduces the value of the product.
II.XIII.10

In agriculture, both the longer duration of the working period and the great difference between working period and productive period are combined. Hodgskin truly says with regard to this circumstance that the difference in the time (although he does not here distinguish between working time and productive time) required to get the products of agriculture ready and that required for the products of other branches of production is the main cause for the great dependence of farmers. They cannot market their goods in less time than one year. During this entire period they must borrow from the shoemaker, the tailor, the smith, the wagonmaker, and various other

producers, whose articles they need, and which articles are finished in a few days or weeks. In consequence of this natural circumstance, and as a result of the more rapid increase of wealth in other branches of production, the real estate owners who have monopolized the land of the entire country, although they have also appropriated the monopoly of legislation, are nevertheless unable to save themselves and their servants, the tenants, from the fate of becoming the most dependent people in the land. (Thomas Hodgskin, Popular Political Economy, London, 1827, page 147, note.)
II.XIII.11

All methods by which partly the expenditures for wages and instruments of labor in agriculture are distributed more equally over the entire year, partly the turn-over is shortened by the raising of various products making different harvests possible during the course of the year, require an increase of the circulating capital invested in wages, fertilizers, seeds, etc., and advanced for purposes of production, This is the case, for instance, in the transition from the three plat system with fallow land to the system of crop rotation without fallow. It applies furthermore to the cultures dérobées of Flanders. "The root crops are planted in culture dérobée; the same field yields in succession first grain, flax, rape, for the wants of man, and after their harvest root crops are sown for the subsistence of cattle. This system, which permits the keeping of horned cattle in the stables without interruption, yields a considerable amount of manure

and thus becomes the fulcrum of crop rotation. More than a third of the cultivated area in sandy districts is taken up with cultures dérobées; it is as though the cultivated area had been increased by one third." Apart from root crops, clover and other leguminous crops are likewise used for this purpose. "Agriculture, being thus carried to a point where it merges into horticulture, naturally requires a relatively considerable investment of capital. In England, a first investment of 250 francs per hectare is assumed. In Flanders, our farmers will probably consider a first investment of 500 francs far too low."(Emile de Laveleye, Essais sur L'Économie Rurale de la Belgique, Paris, 1863, pages 59, 60, 63.)
II.XIII.12

Take finally timber growing. "The production of timber differs from most of the other branches of production essentially by the fact that in it the force of nature is acting independently and does not require the power of man and capital in its natural propagation. Even in places where forests are artificially propagated the expenditure of human and capital power is inconsiderable compared to the action of natural forces. Besides, a forest will still thrive in soils and locations where grain does no longer give any yield or where its production does not pay. Forestry furthermore requires for its regular economy a larger area than grain culture, because small plats do not permit a system of felling trees in plats, prevents the utilization of by-products, complicates the production of the trees, etc. Finally, the productive

process extends over such long periods that it exceeds the aims of private management and even surpasses the age limit of human life in certain cases. The capital invested in the purchase of the real estate" (in the case of communal production there is no capital needed for this, the question being simply how much land the community can spare from its cultivated and pasturing area for forestry) "will not yield returns until after a long period and is turned over gradually, but completely, with forests of certain kinds of wood, only after as much as 150 years. Besides, a consistent production of timber demands itself a supply of living wood which exceeds the annual requirements from ten to forty times. Unless a man has, therefore, still other sources of income and owns vast tracts of forest, he cannot engage in regular forestry." (Kirchhof, page 58.)
II.XIII.13

The long time of production (which comprises a relatively small amount of working time), and thus the length of the periods of turn-over, makes forestry little adapted for private, and therefore, capitalist enterprise, which is essentially private even if associated capitalists take the place of the individual capitalist. The development of civilization and of industry in general has ever shown itself so active in the destruction of forests, that everything done by it for their preservation and production, compared to its destructive effect, appears infinitesimal.
II.XIII.14

The following statement in the above quotation from Kirchhof is particularly worthy of note:"Besides, a consistent production of timber demands itself a supply of living wood which exceeds the annual requirements from ten to forty times." In other works, a turn-over occurs one in ten, forty, or more years.
II.XIII.15

The same applies to stock raising. A part of the herd (supply of cattle) remains in the process of production, while another part of the same is sold annually as a product. In this case, only a part of the capital is turned over every year, just as it is in the case of fixed capital, machinery, laboring cattle, etc. Although this capital is a fixed capital in the process of production for a long time, and thus prolongs the turn-over of the total capital, it is not a fixed capital in the strict definition of the term.
II.XIII.16

That which is here called a supply‘a certain amount of living timber or cattle‘serves in a relative sense in the process of production (being simultaneously instruments of labor and raw materials); on account of the natural conditions of its reproduction under normal circumstances of economy, a considerable part of this supply must always be available in this form.
II.XIII.17

A similar influence on the turn-over is exerted by another kind of supply, which productive capital only potentially, but which owing to the nature of its economy, must be accumulated in a more or less considerable quantity and advanced for purposes of production for a long term, although it is consumed in the actual process of production only gradually. To this class belongs, for instance, manure before it is hauled to the field, furthermore grain, hay, etc., and such supplied of means of subsistence as are employed in the production of cattle. "A considerable part of the productive capital is contained in the supplies of certain industries. But these may lose more or less of their value, if the precautions necessary for their preservation in good condition are not properly observed. Lack of supervision may even result in the total loss of a part of the supplies in the economy. For this reason, a careful inspection of the barns, feed and grain lofts, and cellars, becomes indispensable, the store rooms must always be well closed, kept clear, ventilated, etc. The grain, and other crops held in storage, must be thoroughly turned over from time to time, potatoes and beets must be protected against frost, rain, and fire." (Kirchhof, page 292.) "In calculating one's own requirements, especially for the keeping of cattle, and trying to regulate the distribution according to the nature of the product and its intended use, one must not only take into consideration the covering of one's demand, but also see to it that there is a proportionate reserve for extraordinary cases. If it is then found that the demand cannot be fully covered by one's own

production, it becomes necessary to reflect first whether the missing amount cannot be covered by other products (substitutes), or by the cheaper purchase of such in place of the missing ones. For instance, if there should happen to be a lack of hay, this might be covered by root crops and straw. As a general rule, the natural value and market-price of the various crops must be kept in mind in such cases, and dispositions for the consumption must be made accordingly. If, for instance, oats are high, while pease and rye are relatively low, it will pay to substitute pease or rye for a part of the oats fed to horses and to sell the oats thus saved." (Ibidem, page 300.)
II.XIII.18

It has been previously stated, when discussing the question of the formation of a supply, that a definite, more or less considerable, quantity of potential productive capital is required, that is to say, of means of production intended for use in production, which must be available in proportionate quantities for the purpose of being gradually consumed in the productive process. It has been incidentally remarked, that, given a certain business or capitalist enterprise of definite proportions, the magnitude of this productive supply depends on the greater or lesser difficulties of its reproduction, the relative distance of the supplying markets, the development of means of transportation and communication, etc. All these circumstances influence the minimum of capital, which must be available in the form of a productive supply, hence they influence also the length of time

for which the investment of capital must be made and the amount of capital to be advanced at one time. This amount, which affects also the turn-over, is determined by the longer or shorter time, during which a circulating capital is tied up in the form of a productive supply, of mere potential capital. On the other hand, in so far as this stagnation depends on the greater or smaller possibility of rapid reproduction, on market conditions, etc., it arises itself out of the time of circulation, out of circumstances connected with the circulation. "Furthermore, all such parts of the equipment or auxiliary pieces, as hand tools, sieves, baskets, ropes, wagon grease, nails, etc., must be so much the more available for immediate use, the less the opportunity for their rapid purchase is at hand. Finally, the entire supply of implements must be carefully overhauled in winter, and new purchases or repairs found to be necessary must be made at once. Whether or not a man is to keep a great or small supply of articles of equipment is mainly determined by local conditions. Wherever there are no artisans and stores in the vicinity, it is necessary to keep larger supplies than in places where these are in the locality or near it. But if the necessary supplies are purchased in large quantities at a time, then, other circumstances being equal, one profits as a rule by cheap purchases, provided the right time has been chosen for them. True, the rotating productive capital is thus curtailed by a so much larger sum, which cannot always be well spared in the business." (Kirchhof, page 301.)

II.XIII.19

The difference between the time of production and working time admits of many variations, as we have seen. The circulating capital may be in the period of production, before it enters into the working period proper (production of lasts); or, it is still in the period of production, after it has passed through the working period (wine, seed grain); or, the period of production is occasionally interrupted by the working period (agriculture, timber raising). A large portion of the product, fit for circulation, remains incorporated in the active process of production, while a much smaller part enters into the annual circulation (timber and cattle raising); the longer or shorter time for which a circulating capital must be invested in the form of potential productive capital, hence also the larger or smaller amount of this capital to be advanced at one time, depends partly on the nature of the productive process (agriculture), and partly on the proximity of markets, etc., in short on circumstances connected with the sphere of circulation.

II.XIII.20

We shall see later (Volume III), what senseless theories were advanced by MacCulloch, James Mill, etc., in the attempt of identifying the diverging time of production with the working time, an attempt which is due to a misinterpretation of the theory of value.

II.XIII.21

The cycle of turn-over, which we considered in the foregoing, is determined by the durability of the fixed capital advanced in the process of production. Since this process extends over a series of years, we have a series of annual, or less than annual, successive turn-overs of fixed capital.
II.XIII.22

In agriculture, such a cycle of turn-over arises out of the system of crop rotation. "The duration of the lease must certainly not be figured less than the time of rotation of the adopted system of crop succession. For this reason, one always calculates with 3, 6, 9, in the three plat system. In the three plat system with complete fallow, a field is cultivated only four times in six years, being planted with both winter and summer grain in the years of cultivation, and, if the condition of the soil permits it, wheat and rye, barley and oats, are likewise introduced into the rotation. Every species of grain, however, differs in its yields from others on the same soil, every one of them has a different value and is sold at a different price. For this reason, the yield of the same field is different in every year in which it is cultivated, and different in the first half of the rotation (the first three years) from that of the second. Even the average yield of one period of rotation is not equal to that of another, for its fertility does not depend merely on the good condition of the soil, but also on the weather of the various seasons, just as prices depend on a multitude

of circumstances. Now, if one calculates the income from one field on the average of the crops for the entire rotation of six years and the average prices of those years, one finds the total income of one year in either period of rotation. But this is not so, if the income is calculated only for half of the period of rotation that is to say, for three years, for then the total yields would be unequal. It follows from the foregoing that the duration of a lease in a system of three fields must be chosen for at least six years. It would be still more desirable for tenants and owners that the duration of the lease should be a multiple of the duration of the lease (!), in other words, that it should be 12, 18, or more years instead of 6 years, in a system of three fields, and 14, 28 years instead of 7 in a system of seven fields." (Kirchhof, pages 117, 118.)
II.XIII.23

(The manuscript at this place contains the note: "The English system of crop rotation. Make a note here.")

Part II,

Volume II Chapter XIV THE TIME OF CIRCULATION.

II.XIV.1

All circumstances considered so far, which distinguish the periods of rotation of different capitals invested in different branches of industry

and the periods for which capital must be advanced, have their source in the process of production itself, such as the difference between fixed and circulating capital, the difference in the working periods, etc. But the period of turn-over of capital is equal to the sum of its time of production plus its time of circulation. It is, therefore, a matter of course that a difference in the time of circulation changes the time of turn-over and to that extent the length of the period of turn-over. This becomes most plainly apparent, either in comparing the different investments of capital in which all circumstances modifying the turn-over are equal, except the time of circulation, or in selecting a given capital with a given composition of fixed and circulating parts, a given working time, etc., permitting only the time of circulation to vary hypothetically.
II.XIV.2

One of the sections of the time of circulation‘relatively the most decisive‘consists of the time of selling, the period during which capital has the form of commodity-capital. According to the relative length of this time, the time of circulation, and to that extent the period of turn-over, are lengthened or shortened. An additional outlay of capital may become necessary as a result of expenses of storage. It is evident from the outset that the time required for the sale of finished products may differ considerably for the individual capitalists in one and the same branch of industry; and this does not refer merely to the grand totals of capital invested in the various departments of

industry, but also to the different individual capitals, which are in fact individual parts of the aggregate capital invested in the same department of production. Other circumstances remaining equal, the period of selling for the same individual capital will vary with the general fluctuations of the market conditions, or with their fluctuations in that particular business department. We do not tarry over this point any longer. We merely state the simple fact that all circumstances which produce differences in the periods of turn-over of the capitals invested in different business departments, also carry in their train differences in the turn-over of the various individual capitals existing in the same departments, provided these circumstances have any individual effects (for instance, if one capitalist has an opportunity to sell more rapidly than his competitor, if one employs more methods shortening the working periods than the other, etc.).
II.XIV.3

One cause which acts continuously in differentiating the time of selling, and thus the periods of turn-over in general, is the distance of the market, in which a commodity is finally sold from its regular place of sale. During the entire time of its trip to the market, capital finds itself fettered in the form of commodity-capital. If goods are made to order, this condition lasts up to the time of delivery; if they are not made to order, the time of the trip to the market is further increased by the time during which the goods are on the market waiting to be sold. The improvement of the means of communication and

transportation abbreviates the wandering period of the commodities absolutely, but does not abolish the relative difference in the time of circulation of different commodity-capitals arising from their wanderings nor that of different portions of the same commodity-capital which wander to different markets. The improved sailing vessels and steamships, for instance, which shorten the wanderings of commodities, do so equally for near and for distant ports. But the relative differences may be altered by the development of the means of transportation and communication in a way that does not correspond to the natural distances. For instance, a railroad, which leads from a place of production to an inland center of population, may relatively or absolutely prolong the distance to a nearer point inland not connected with a railroad, compared to the one which is naturally more distant. In the same way, the same circumstances may alter the relative distance of places of production from the larger markets, which explains the running down of old and the rise of new places of production through changes in the means of communication and transportation. (In addition to these circumstances, there is the greater relative cheapness of transportation for long than for short distances.) Moreover, it is not alone the velocity of the movement through space, and the consequent reduction of distance in space, but also in time, which is brought about by the development of the means of transportation. It is not only the quantity of means of communication which is developed, so that, for instance, many vessels sail simultaneously for the same port, or several trains travel

simultaneously on different railways between the same two points, but freight vessels may, for instance, clear on different successive days of the week from Liverpool for New York, or freight trains may start at different times of the day from Manchester to London. It is true, that the absolute velocity, or this part of the time of circulation, is not modified by this latter circumstance, a certain definite capacity of the means of transportation, being given. But successive quantities of commodities can start on their passage in shorter succession of time and thus reach the market one after another without accumulating as potential commodity-capital in large quantities before shipping. Hence the return movement likewise is distributed over shorter successions of time, so that a part is continually transformed into money-capital, while another circulates as commodity-capital. By means of this distribution of the return movement over several successive periods the total time of circulation is abbreviated and thereby also the turn-over. On one hand, the greater or lesser frequency of the function of means of transportation, for instance the number of railroad trains, develops first to the extent that a place of production produces more and becomes a greater center of production, and this development tends in the direction of the existing market, that is to say, toward the great centers of production and population, export places, etc. But on the other hand this special facilitation of traffic and the consequent acceleration of the turn-over of capital (to the extent that it is conditioned on the time of circulation) give rise to a hastened concentration of the center of production and of its market. Along

with this hastened concentration of masses of men and capital, the concentration of these masses of capital in a few hands likewise progresses. Simultaneously there is a movement, which shifts and displaces the center of commercial gravity as a result of changes in the relative location of centers of production and markets caused by transformations in the means of communication. A place of production which once had a special advantage by its favored location on some highway or canal then finds itself set aside on a single side-track, which runs trains only at relatively long intervals, while another place, which formerly lay removed from the main roads of traffic, then finds itself located at the crossing point of several railroads. This second point is built up, the former goes down. A transformation in the means of transportation thus causes a local difference in the time of circulation of commodities, the opportunity to buy, to sell, etc., or an already existing local differentiation is distributed differently. The significance of this circumstance for the turn-over of capital is shown in the disputes of the commercial and industrial representatives of the various places with the railroad managers. (See, for instance, the above quoted bluebook of the Railway Committee.)
II.XIV.4

All branches of production which are dependent on local consumption by the nature of their product, such as breweries, are therefore developed to greatest dimensions in the main centers of population. The more rapid turn-over of capital compensates in this case for the

eventual increase in the price of some elements of production, such as building lots, etc.
II.XIV.5

While on one hand, the development of the means of transportation and communication by the progress of capitalist production reduces the time of circulation for a given quantity of commodities, the same progress, on the other hand, coupled to the growing possibility of reaching more distant markets to the extent that the means of transportation and communication are improved, leads to the necessity of producing for ever more remote markets, in one word, for the world market. The mass of commodities in transit for distant places grows enormously, and with it also grows absolutely and relatively that part of social capital which remains constantly for longer periods in the stage of commodity-capital, within the time of circulation. Simultaneously that portion of social wealth increases, which, instead of serving as direct means of production, is invested in the fixed and circulating capital required for operating the means of transportation and communication.
II.XIV.6

The mere relative length of the transit of the commodities from their place of production to their market causes a difference, not only in the first part of the time of circulation, the selling time, but also in its second part, the reconversion of money into the elements of

productive capital, the buying time. For instance, some commodities are shipped to India. This requires, say, four months. Let us assume that the selling time is equal to zero, that is to say, the commodities are made to order and are paid for on delivery to the agent of the producer. The return of the money (no matter what may be its form) requires again four months. Thus it takes eight months, before the same capital can again serve as productive capital and renew the same operations. The differences in the turn-over thus caused are one of the material bases of the various terms of credit. Trans-oceanic commerce in general, for instance in Venice and Genoa, is one of the sources of the credit system‘strictly so called. The London Economist of July 16, 1866, wrote that the crisis of 1847 enabled the banking and trading business of that time to reduce the Indian and Chinese usage (for the running time of checks between those countries and Europe) from ten months after sight to six months, and the lapse of twenty years with its acceleration of the trip and the institution of telegraphs renders necessary a further reduction from six months after sight to four months after date as a preliminary step toward four months after sight. The trip of a sailing vessel from Calcutta around the cape of London lasts on an average less than 90 days. A usage of four months after sight would be equivalent to a running time of 150 days, approximately. The present usage of six months after sight is equivalent to a running time of 210 days. On the other hand, we read in the issue of June 30, 1866, of the same paper, that the Brazilian usage is still fixed at two and three months after sight,

checks of Antwerp on London are drawn for three months after date, and even Manchester and Bradford draw on London for three months and longer dates. By a tacit understanding, the merchant is thus given sufficient opportunity to realize on his goods by the time the checks are due, if not before. For this reason, the usage of Indian checks is not excessive. Indian products, which are sold in London generally on three months' time, cannot be realized upon in much less than five months, if some time for the sale is allowed, while another five months pass on an average between the purchase in India and the delivery to an English warehouse. Here we have a period of ten months, while the checks drawn against the goods do not run above seven months. And again, on July 7, 1866, we read that, on July 2, 1866, five great London banks, dealing especially with India and China, and the Paris Comptoir d'Escompte, gave notice that, beginning with January 1, 1867, their branch banks and agencies in the Orient would buy and sell only such checks as were not drawn for more than four months after sight. However, this reduction miscarried and had to be revoked. (Since then the Suez canal has revolutionized all this.)
II.XIV.7

It is a matter of course that with the longer time of circulation the risk of a change of prices in the selling market increases, since it increases the period in which changes of price may take place.
II.XIV.8

A difference in the time of circulation, partly individually between the various individual capitals of the same branch of business, partly between different branches of business according to different usages, when payment is not made in spot cash, arises from the different dates of payment in buying and selling. We do not linger for the present over this point, which is important for the credit business. II.XIV.9

Other differences in the period of turn-over arise from the size of contracts for the delivery of goods, and their size grows with the extent and scale of capitalist production. Such a contract, being a transaction between buyer and seller, is an operation belonging to the market, the sphere of circulation. The differences in the time of turn-over arising from it have their source for this reason in the sphere of circulation, but react immediately on the sphere of production, apart from all dates of payment and conditions of credit including cash payment. For instance, coal, cotton, yarn, etc., are discontinuous products. Every day supplies its quantity of finished product. But if the spinner or the mine owner accepts contracts for the delivery of large quantities, which require, say, a period of four or six weeks of successive working days, then this is the same, so far as the time of investment of advanced capital is concerned, as though a continuous working period of four or six weeks had been introduced in this labor-process. It is of course assumed in this case that the entire quantity

ordered is to be delivered in one bulk, or at least is only paid after all of it has been delivered. Individually considered, every day had furnished its definite quantity of finished product. But this finished product is only a part of the quantity contracted for. Although the portion finished so far is no longer in the process of production, it is still in the warehouse as a potential capital.
II.XIV.10

Now let us take up the second epoch of the time of circulation, the buying time, or that epoch in which capital is converted from money back into the elements of productive capital. During this epoch, it must remain for a shorter or longer time in its condition of money-capital, so that a certain portion of the total capital advanced is all the time in the form of money-capital, although this portion consists of continually changing elements. For instance, of the total capital advanced in a certain business, n times 100 pounds sterling must be available in the form of money-capital, so that, while all the constituent parts of these n times 100 pounds sterling are continually converted into productive capital, this sum is nevertheless just as continually supplemented by new additions from the circulation, out of the realized commodity-capital. A definite part of the value of the advanced capital is, therefore, continually in the condition of money-capital, a form not belonging to its sphere of production, but to its sphere of circulation.
II.XIV.11

We have already seen that the prolongation of time caused by the distance of the market, by which capital is fettered in the form of commodity-capital, directly retards the return movement of the money and, consequently, the transformation of capital from its money into its productive form.
II.XIV.12

We have furthermore seen (chapter VI) with reference to the purchase of commodities, that the time of buying, the greater or smaller distance from the main sources of the raw material, makes it necessary to purchase raw material for a longer period and keep it on hand in the form of a productive supply, of latent or potential productive capital; in other words, that it increases the quantity of capital to be advanced at one time, and the time for which it must be advanced, the scale of production remaining otherwise the same.
II.XIV.13

A similar effect is produced in various businesses by the longer or shorter periods, in which large quantities of raw material are thrown on the market. In London, for instance, great auction sales of wool take place every three months, and the wool market is controlled by them. The cotton market, on the other hand, is on the whole restocked continuously, if not uniformly, from harvest to harvest. Such periods determine the principal dates of buying for these raw materials

and affect especially the speculative purchases requiring longer or shorter advances of these elements of production, just as the nature of the produced commodities exerts an influence on the premeditated speculative retention of the product for a longer or shorter term in the form of potential commodity-capital. "The farmer must also be to a certain extent a speculator, and, therefore, hold back the sale of his products according to prevailing conditions..." Here follow a few general rules. "...However, in the sale of the products, success depends mainly on the personality, the product itself, and the locality. A man with sufficient business capital, won by ability and good luck (!), will not be blamed, if he keeps his grain crop stored for a year when prices happen to be unusually low. On the other hand, a man who lacks business capital, or enterprise in general (!), will try to get the average prices and be compelled to sell as soon and as often as opportunity presents itself. It will almost always bring losses to keep wool stored longer than a year, while grain and rape seed may be stored for several years without injury to their condition and quality. Such products as are generally subject to a large rise and fall in short intervals, for instance, rape seed, hops, teasel, etc., may be to good advantage stored during the years in which the market price is far below the price of production. It is least permissible to postpone the sale of such articles as require daily expenses for their preservation, such as fatted cattle, or which spoil easily, such as fruit, potatoes, etc. In some localities, a certain product has its lowest average price at a certain season, its highest at another. For instance, the average price

of grain in some localities is lower about August than in the time between Christmas and Easter. Furthermore, some products sell well in certain localities only at certain periods, as is the case, for instance, with wool in the wool markets of those localities, where the wool trade is dull at other times, etc." (Kirchhof, page 302.)
II.XIV.14

In the study of the second half of the time of circulation, in which money is reconverted into the elements of productive capital, it is not only this conversion itself which is important in itself, not only the time in which the money flows back according to the distance of the market on which the product is sold. It is also above all the volume of that part of the advanced capital to be held always available in the form of money, in the condition of money-capital, which must be considered.
II.XIV.15

Making exception of all speculation, the volume of the purchases of those commodities which must always be available as a productive supply depends on the time of the renewal of this supply, in other words, on circumstances which in their turn depend on market conditions and which are, therefore, different for different raw materials. In these cases, money must be advanced from time to time in larger quantities in one sum. It flows back more or less rapidly, but always in instalments, according to the turn-over of capital. One

portion, namely that invested in wages, is continually re-expended in short intervals. But another part, namely that which is to be reconverted into raw material, etc., must be accumulated for long periods, as a reserve fund to be used either for buying or paying. Therefore it exists in the form of money-capital, although the volume which it has as such changes.
II.XIV.16

We shall see in the next chapter that other circumstances, whether they arise from the process of production or circulation, necessitate this existence of a certain portion of the advanced capital in the form of money. In general it must be noted that economists are very prone to forger that a part of the capital required for business not only passes alternately through the three stages of money-capital, productive capital, and commodity-capital, but that different portions of it have continuously and simultaneously these forms, although the relative size of these portions varies all the time. It is especially the portion always available as money-capital which is forgotten by economists, although this circumstance is very important for the understanding of capitalist economy and makes its importance felt in practice.

Part II,

Volume II Chapter XV INFLUENCE OF THE TIME OF CIRCULATION ON THE MAGNITUDE OF AN ADVANCE OF CAPITAL.

II.XV.1

In this chapter and in the next we shall treat of the influence of the time of circulation on the utilization of capital.

II.XV.2

Take the commodity-capital which is the product of a certain working period, for instance, of nine weeks. Let us leave aside the question of that portion of value which is transferred to the product by the average wear and tear of the fixed capital, also that of the surplus-value added to it during the process of production. The value of this product is then equal to that of the circulating capital advanced for its production, that is to say, of the wages, raw and auxiliary materials consumed in its production. Let this value be 900 pounds sterling, so that the weekly outlay is 100 pounds sterling. The periodic time of production, which here coincides with the working time, is nine weeks. It is immaterial whether it is assumed that this working period produces a continuous product, or whether it is a continuous working period for a discontinuous product, so long as the quantity of discontinuous product, which is brought to market at one time, costs nine weeks of labor. Let the time of circulation be three weeks. Then the entire time of turn-over is twelve weeks. At the end of nine

weeks, the advanced productive capital is converted into a commodity-capital, but now it exists for three weeks in the period of circulation. The new time of production, therefore, cannot commence until the beginning of the thirteenth week, and production would be at a standstill for three weeks, or for a quarter of the entire period of turn-over. It is again immaterial whether it is assumed that it takes so long on an average to sell the product, or that this term is conditioned on the distance of the market or on the terms of payment for the sold goods. Production would be at a standstill for three weeks every three months, or four times three, or twelve weeks, in a year, which means three months or one quarter of the annual period of turn-over. Hence, if production is to be continuous and to be carried along on the same scale week after week, there are only two possibilities.
II.XV.3

Either the scale of production must be reduced, so that those 900 pounds sterling will suffice to keep the work going during the working period as well as during the time of circulation of the first turn-over. A second working period is then commenced with the tenth week, hence also a new period of turn-over, before the first period of turn-over is completed, for the period of turn-over is twelve weeks, the working period nine weeks. A sum of 900 pounds sterling distributed over twelve weeks makes 75 pounds per week. It is evident in the first place that such a reduced scale of business presupposes changed

dimensions of the fixed capital, and therefore a general reduction of the entire business. In the second place, it is questionable whether such a reduction can take place at all, for the development of production in the various businesses establishes a normal minimum for the investment of capital, below which an individual business is unable to sustain competition. This normal minimum grows continually with the advance of capitalist production, hence it is not a fixed magnitude. There are numerous gradations between the existing normal minimum and the ever increasing normal maximum, and this intermediate gradation permits of many different degrees of capital investment. Within the limits of this intermediate scale, a reduction may take place, its lowest limit being the normal minimum.
II.XV.4

In case of an obstruction of production, an overstocking of the markets, an increase in the price of raw materials, etc., there is a reduction of the normal outlay of circulating capital, compared to a given scale of fixed capital, by the reduction of the working time, work being carried on, say, for only half a day. On the other hand, in times of prosperity, the fixed capital, remaining the same, there is an abnormal expansion of the circulating capital, partly by the prolongation of the working time, partly by its intensification. In businesses which are adjusted from the outset to such fluctuations, recourse is either taken to the above-named measures, or a greater number of laborers are simultaneously employed, combined with an

investment of reserve capital, such as reserve locomotives of railroads, etc. However, such abnormal fluctuations are not considered here, where we assume normal conditions.
II.XV.5

In order to make production continuous, it is necessary, in the present case, to distribute the expenditure of the same circulating capital over a longer period, over twelve weeks instead of nine. In any section of time, a reduced productive capital is therefore employed. The circulating portion of the productive capital is reduced from 100 to 75, or one quarter. The total amount by which the productive capital serving for a working period of nine weeks is reduced is 9 times 25, or 225 pounds sterling, or one quarter of 900 pounds. But the proportion of the time of circulation to that of turn-over is likewise three twelfth, or one quarter. It follows, therefore: If production is not to be interrupted during the time of circulation of the productive capital transformed into commodity-capital, if it is rather to be continued parallel with circulation and continuously week after week, and if no special circulating capital is available, it can be done only by curtailing the productive operations, reducing the circulating portions of the productive capital in service. The portion of circulating capital thus set free for production during the time of circulation is proportioned to the total circulating capital invested as the time of circulation is to the time of turn-over. We repeat, that this applies only to branches of production in which the labor-process is continued on the same scale

week after week, in other words, where no different amounts of capital are invested at different working periods as is done, for instance in agriculture.
II.XV.6

If, on the other hand, we assume that the nature of the business excludes the idea of a reduction of the scale of production and thus of the circulating capital to be invested weekly, then the continuity of production can be secured only by additional circulating capital, in the above-named case of 300 pounds sterling. During the period of turn-over of twelve weeks, 1,200 pounds sterling are successively invested in twelve weeks, and 300 is one quarter of this sum as three weeks is of twelve. At the end of the working time of nine weeks, the capital-value of 900 pounds sterling has been converted from the form of productive into that of commodity-capital. Its working period is concluded, but it cannot be re-opened with the same capital. During the three weeks in which it exists in the sphere of circulation, performing the functions of commodity-capital, it is in a condition, so far as the process of production is concerned, as though it did not exist at all. We make exception, at present, of all conditions of credit, and assume that the capitalist operates only with his own money. But while the capital advanced for the first working period, having completed its process of production, remains for three weeks in the process of circulation, an additional capital of 300 pounds sterling

enters into service, so that the continuity of the production is not interrupted.

II.XV.7

Now, the following must be noted in this connection:

First: The working period of the capital first invested, of 900 pounds sterling, is completed at the close of nine weeks, and it does not flow back until after three weeks, that is to say, in the beginning of the thirteenth week. But a new working period is immediately begun with the additional capital of 300 pounds. By this means the continuity of production is secured.

Secondly: The functions of the original capital of 900 pounds sterling, and those of the additional capital of 300 pounds sterling added at the close of the first working period of nine weeks, inaugurating the second working period after the conclusion of the first, without any interruption, are clearly distinguished in the first period of turn-over, or at least they may be, while they cross one another in the course of the second period of turn-over.

II.XV.8

Let us give this matter a tangible form.

II.XV.9

First period of turn-over of 12 weeks: First working period of 9 weeks; the turn-over of the capital advanced for this is completed at the beginning of the 13th week. During the last 3 weeks, the additional capital of 300 pounds sterling performs its service, opening up the second working period of 9 weeks.
II.XV.10

Second period of turn-over. At the beginning of the 13th week, 900 pounds sterling have flown back and are able to begin a new turn-over. But the second working period has already been opened by the additional 300 pounds in the 10th week. At the commencement of the 13th week, this capital has already completed one third of its working period and 300 pounds sterling have been converted from a productive capital into a product. Seeing that only 6 weeks are required for the completion of the second working period, only two-thirds of the returned capital of 900 pounds sterling, or 600 pounds, can take part in the productive process of the second working period. Thus 300 pounds of the original 900 are set free and may play the same role, which the additional capital of 300 pounds played in the first working period. At the close of the 6th week of the second period of turn-over, the second working period is completed. The capital of 900 pounds sterling advanced in it flows back after 3 weeks, or at the end of 9th week of the second period of turn-over which comprises 12 weeks. During the 3 weeks of its period of circulation, the free capital of 300 pounds sterling comes into action.

This begins the third working period of a capital of 900 pounds sterling in the 7th week of the second period of turn-over, which is the 19th running week.
II.XV.11

Third period of turn-over. At the close of the 9th week of the second period of turn-over, there is a new reflux of 900 pounds sterling. But the third working period has already commenced in the 7th week of the second period of turnover, and at the beginning of the third period of turn-over, 6 weeks of the third working period have already elapsed. The third working period, then, lasts only 3 weeks longer. Hence only 300 pounds of the returned 900 take part in the productive process of the second period of turn-over, while the next 300 close the last three weeks of the third working period and thus open the first three weeks of the third period of turn-over. The fourth working period fills out the remaining 9 weeks of this period of turn-over, and thus the 37th running week begins simultaneously the fourth period of turn-over and fifth working period.
II.XV.12

In order to simplify this case for the calculation, we shall assume a working period of 5 weeks and a period of circulation of 5 weeks, making a period of turn-over of 10 weeks. Let the year be one of fifty working weeks, and the capital invested per week 100 pounds sterling. A working period then requires a circulating capital of 500

pounds sterling, and the period of turn-over an additional capital of 500 pounds sterling. The working periods and periods of turn-over then are as follows:

1. wrkg. prd. 1‘5. week (500 p. stlg. of goods) returned end of 10.

2. wrkg. prd. 6‘10. week (500 p. stlg. of goods) returned end of 15.

3. wrkg. prd. 11‘15. week (500 p. stlg. of goods) returned end of 20.

4. wrkg. prd. 16‘20. week (500 p. stlg. of goods) returned end of 25.

5. wrkg. prd. 21‘25. week (500 p. stlg. of goods) returned end of 30.

etc.

II.XV.13

If the time of circulation is zero, so that the period of turn-over is equal to the working time, then the number of turn-overs is equal to the working periods of the year. In the case of a working period of 5 weeks, this would make 10 periods of turn-over per year, and the value of the capital turned over would be 500 times 10, or 5,000. In our table, in which we have assumed a time of circulation of 5 weeks, the total value of the commodities produced per year would also be

5,000 pounds sterling, but one tenth of this, or 500 pounds, would always be in the form of commodity-capital, which would not flow back until after 5 weeks. At the end of the year, the product of the tenth working period (the 46th to the 50th working week) would have completed its period of turn-over only by half, because its time of circulation would fall within the first five weeks of the year.
II.XV.14

Now let us take a third illustration: Working period 6 weeks, time of circulation 3 weeks, weekly advance of capital 100 pounds sterling.
II.XV.15

1.Working period: 1‘6th week. At the end of the 6th week, a commodity-capital of 600 pounds sterling, returned at the end of the 9th week.
II.XV.16

2. Working period: 7‘12th week. During the 7‘9th week 300 pounds sterling of additional capital is advanced. At the end of the 9th week, return of 600 pounds sterling. Of this, 300 pounds sterling are advanced during the 10‘12th week. At the end of the 12th week, therefore, 300 pounds sterling are available, and 600 pounds sterling are in the form of commodity-capital, returnable at the end of the 15th week.
II.XV.17

3. Working period: 13‘18th week. During the 13‘15th week, advance of above 300 pounds sterling, then reflux of 600 pounds, 300 of which are advanced for the 16‘18th week. At the end of the 18th week, 300 pounds sterling available in cash, 600 on hand as commodity-capital, which flows back at the end of the 21st week. (See the detailed illustration of this case under II, farther along.)
II.XV.18

In other words, during 9 working periods (54 weeks) a total of 600 times 9, or 5,400 pounds sterling is produced. At the end of the ninth working period, the capitalist has 300 pounds in cash and 600 pounds worth of commodities, which have not yet completed their time of circulation.
II.XV.19

A comparison of these three illustrations shows first, that a successive release of capital I of 500 pounds sterling and of additional capital II of likewise 500 pounds sterling takes place only in the second illustration, so that these two portions of capital move independently of one another. But this is so only because we have made the exceptional assumption that the working time and the time of circulation are two equal halves of the period of turn-over. In all other cases, whatever may be the difference of the two terms of the period of turn-over, the movements of the two capitals cross one

another, as they do in the first and third illustration, beginning with the second period of turn-over. The additional capital II, with a portion of capital I, then forms the capital serving in the second period of turn-over, while the remainder of capital I is set free for the original function of capital II. The capital serving during the time of circulation of the commodity-capital is not identical, in this case, with the capital II originally advanced for this purpose, but it is of the same value and forms the same aliquot portion of the advanced total capital.

II.XV.20

Secondly: The capital which served during the working period, lies fallow during the time of circulation. In the second illustration, the capital performs its function during 5 weeks of the working period, and lies fallow during a circulation period of 5 weeks. The entire time during which capital I here lies fallow amounts to one-half of the year. During this time, the additional capital II takes the place of capital I, which in its turn lies fallow during the other half of the year. But the additional capital required for insuring the continuity of the production during the time of circulation is not determined by the aggregate volume, or the sum, of the times of circulation during the year, but only by the proportion of the time of circulation to the time of turn-over. (We assume, of course, that all the turn-overs take place under the same conditions.) For this reason, 500 pounds sterling are required in the second illustration, not 2,500 pounds. This is simply

due to the fact that the additional capital enters just as well into the turnover as the capital originally advanced, and that it, therefore, reproduces its volume the same as the other by the number of its turn-overs.
II.XV.21

Thirdly: It does not alter the circumstances here described, whether or not the time of production is longer than the working time. True, the aggregate of the periods of turn-over is prolonged thereby, but this prolongation does not imply any additional capital for the labor-process. The additional capital serves merely the purpose of filling up the fallow places left by the time of circulation. Its mission is simply to protect production against interruption by the time of circulation. Interruptions arising from the conditions of production itself are compensated for in another way, which we do not discuss at this point. There are, however, some businesses, in which work is carried on only in intervals and to order, so that there may be interruptions in the working periods. In such cases, the necessity of additional capital is eliminated to that extent. On the other hand, in most cases of season work, there is a limit for the time of reflux. The same work cannot be renewed next year with the same capital, if the time of circulation of this capital is not completed. Still, the time of circulation may be shorter than the intervals between two periods of production. In such an eventuality, capital lies fallow, unless it is employed otherwise in the meantime.

II.XV.22

Fourthly: The capital advanced for a certain working period, for instance, the 600 pounds sterling in the third illustration, is invested partly in raw and auxiliary materials, in a productive supply for the working period, in constant circulating capital, partly in variable circulating capital, in the payment of labor itself. The portion invested in constant circulating capital may not exist for the same length of time in the form of a productive supply, the raw material, for instance, may not be on hand for the entire working period, coal may be purchased only every two weeks. However, credit being out of the question, according to our assumption, this portion of capital, to the extent that it is not available in the form of a productive supply, must be kept on hand in the form of money in order to be converted into a productive supply when needed. This does not alter the magnitude of the constant circulating capital-value advanced for 6 weeks. The wages, on the other hand, are generally paid weekly, making exception of the money supply for unforeseen expenses, the strict reserve fund for the compensation of disturbances. Unless the capitalist, therefore, compels the laborer to advance his labor for a longer time, the money required for the payment of wages must be on hand. During the reflux of the capital, a portion must, therefore, be reserved in the form of money for the payment of labor, while the remaining portion may be converted into a productive supply.
II.XV.23

The additional capital is subdivided exactly like the original. But it is distinguished from capital I by the fact that (apart from conditions of credit), in order to be available for its own period of labor, it must be advanced during the entire duration of the first working period of capital I, in which it does not take part. During this time, it may be converted into constant circulating capital, at least in part, being advanced for the entire period of turn-over. To what extent it will assume this form, or persist in the form of additional money-capital, up to the time where this conversion becomes necessary will depend partly on the special conditions of production of definite lines of business, partly on the fluctuations in the prices of raw material, etc. Looking at it from the point of view of the aggregate social capital, there will always be a more or less considerable part of this additional capital for a rather long time in the form of money-capital. But as for that portion of capital II which is to be advanced for wages, it is always gradually converted into labor-power to the extent that small working periods are closed and paid for. This portion of capital II, then, is available in the form of money-capital for the entire working period, until it is converted into labor-power and thus takes part in the function of productive capital.
II.XV.24

The advent of the additional capital required for the transformation of the time of circulation of capital I into a time of production increases

not only the magnitude of the advanced capital and length of time for which the aggregate capital must be necessarily advanced, but it also increases specifically that portion of the advanced capital which exists in the form of a money-supply, which persists in the condition of money-capital, and has the form of potential capital.
II.XV.25

The same takes also place, as concerns both the advance in the form of a productive supply and in that of a money supply, when the separation of capital into two parts required by the time of circulation, namely, capital for the first working period and reserve capital for the time of circulation, is not caused by the increase of the invested capital, but by a decrease of the scale of production. In proportion to the scale of production, the increase of the capital tied up in the form of money is apt to grow still more in this case.
II.XV.26

It is the continuous succession of the working periods, the continuous function of an equal portion of the advanced capital as productive capital, which is insured by this separation of capital into an original productive and a reserve capital.
II.XV.27

Let us look at the second illustration. The capital continuously employed in the process of production amounts to 500 pounds

sterling. The working period being 5 weeks, it works ten times during a working year of 50 weeks. Hence its product, apart from surplus-value, is 10 times 500 or 5,000 pounds sterling. From the point of view of a directly and uninterruptedly working capital in the process of production, a capital-value of 500 pounds sterling, the time of circulation seems entirely eliminated. The period of turn-over coincides with the working period, the time of circulation being assumed as equal to zero.
II.XV.28

But if the capital of 500 pounds sterling were interrupted in its productive activity by regular times of circulation covering 5 weeks, so that it could not become productively active until after the close of the entire period of turn-over of 10 weeks, we should have 5 turn-overs of ten weeks each in 50 running weeks. These would comprise 5 periods of production of 5 weeks each, or 25 productive weeks with a total product of 5 times 500, or 2,500 pounds sterling; and 5 times of circulation of 5 weeks each, or a total period of circulation of 25 weeks. If we say in this case that the capital of 500 pounds sterling has been turned over 5 times in the year, it is evident and obvious that this capital of 500 pounds sterling did not serve at all as a productive capital during one-half of each period of turn-over, and that, taking all in all, it performed its function only during one half of the year, while it did not serve at all during the other half.
II.XV.29

In our illustration, the reserve capital of 500 pounds sterling comes to the rescue during those five periods of circulation, and the turn-over is thus expanded from 2,500 to 5,000 pounds. But now the advanced capital is 1,000 instead of 500 pounds sterling. Hence there are only five turn-overs instead of ten. This is indeed the way in which people count. But when it is said that the capital of 1,000 pounds has been turned over five times in the year, the recollection of the time of circulation disappears in the hollow skulls of the capitalists, and a confused idea is formed that this capital has served continuously in the process of production during the successive five turn-overs. As a matter of fact, if we say that the capital of 1,000 pounds has been turned over five times in a year, we include both the time of circulation and the time of production. For, indeed, if 1,000 pounds sterling had actually been continuously active in the process of production, the product would have to be 10,000 pounds sterling instead of 5,000, according to our assumptions. But in order to have 1,000 pounds sterling continuously in the process of production, 2,000 pounds would have to be advanced. The economists, who as a general rule have nothing clear to say in reference to the mechanism of the turn-over, always overlook this main point, to-wit, that only a part of the industrial capital can actually be engaged in the process of production, if production is to proceed uninterruptedly. While one part is busy in the process of production, another must always be engaged in the process of circulation. Or in other words, one part can perform

the functions of productive capital only on condition that another part is withdrawn from production in the form of commodity or money-capital. In overlooking this, the significance and role of money-capital is entirely ignored.

II.XV.30

We have now to ascertain to what extent differences in the turn-over are caused according to whether the two sections of the period of turn-over, the working period and the circulating period, are equal to one another, or the working period greater or smaller than the circulating period, and furthermore, what effect this has on the retention of capital in the form of money-capital.

II.XV.31

We assume, that the capital advanced weekly is in all cases 100 pounds sterling, and the period of turn-over 9 weeks, so that the capital invested in each period of turnover is 900 pounds sterling.

I. The Working Period Equal to the Period of Circulation.

II.XV.32

Although this case occurs in reality only accidentally, as an exception, it must serve as our point of departure in this analysis, because

conditions here shape themselves in the simplest and most intelligible way.

II.XV.33

The two capitals (capital I advanced for the first working period, and reserve capital II advanced during the time of circulation of capital I) relieve one another in their movements without crossing. With the exception of the first period, either of the two capitals is therefore advanced only for its own period of turn-over. Let the period of turnover be 9 weeks, as indicated in the two following illustrations, so that the working period and the time of circulation are each of them 4½ weeks. Then we have the following annual diagram:

Table I.

CAPITAL I.

	Periods of Turn-Over.	Working Periods.	Advance.	Periods of Circulation.
I.	1-9. week	1-4. 5. week	450 p. st.	4. 5-9. week
II.	10-18. "	10-13. 5. "	450 p. st.	13. 5-18. "
III.	19-27. "	19-22. 5. "	450 p. st.	22. 5-27. "
IV.	28-36. "	28-31. 5. "	450 p. st.	31. 5-36. "
V.	37-45. "	37-40. 5. "	450 p. st.	40. 5-45. "
VI.	46-(54) "	46-49. 5. "	450 p. st.	49. 5-(54) " *32

CAPITAL II.

	Periods of Turn-Over.	Working Period.	Advance.	Periods of Circulation.
I.	4. 5-13. 5. week	4. 5-9. week	450 p. st.	10-13. 5. week
II.	13. 5-22. 5. "	13. 5-18. "	450 p. st.	19-22. 5. "
III.	22. 5-31. 5. "	22. 5-27. "	450 p. st.	28-31. 5. "
IV.	31. 5-40. 5. "	31. 5-36. "	450 p. st.	37-40. 5. "
V.	40. 5-49. 5. "	40. 5-45. "	450 p. st.	46-49. 5. "
VI.	49. 5-(58. 5.) "	49. 5-(54.) "	450 p. st.	(54-58. 5.) "

II.XV.34

Within the 50 weeks which we here assume to stand for one year, capital I has absolved six full working periods, making 6 times 450, or 2,700 pounds sterling, and capital II making in five full working periods 5 times 450, or 2,250 pounds sterling's worth of commodities. In addition there-to, capital II has produced, within the last one and a half weeks of the year (middle of the 50th to the end of the 51st week) an extra 150 pounds sterling's worth, making the aggregate product 5,100 pounds sterling. So far as the direct production of surplus-value is concerned, which is produced only during the working period, the aggregate capital of 900 pounds sterling would have been turned over 5 2-3 times (5 2-3 times 900 equal to 5,100 pounds sterling). But if we consider the actual turn-over, then capital I has been turned over 5 2-3 times, since at the close of the 51st week it still has to absolve 3 weeks of its sixth period of turn-over; 5 2-3 times 450 make 2,550 pounds sterling; and capital II turned over 5 1-

6 times, since it has completed only 1 1-2 week of its sixth period of turn-over, so that 7 1-2 weeks of it fall within the next year; 5 1-6 times 450 make 2,325 pounds sterling; actual aggregate turn-over 4,875 pounds sterling.
II.XV.35

Let us regard capital I and capital II as two capitals independent of one another. They are independent in their movements; these movements supplement one another merely because their working and circulating periods directly relieve one another. They may be regarded as two entirely independent capitals belonging to different capitalists.
II.XV.36

Capital I has completed five full turn-overs and two-thirds of its sixth period of turn-over. At the end of the year it has the form of commodity-capital, which lacks three weeks of its normal realization. During this time, it cannot take part in the process of production. It performs the function of commodity-capital, it circulates. It has completed only two-thirds of its last period of turn-over. This is expressed in the words: It has been turned over only two-thirds, only two-thirds of its total value have completed their turn-over. We say that 450 pounds sterling complete their turn-over in 9 weeks, hence 300 do in 6 weeks. But in this expression, the organic conditions of the two specifically different portions of the period of turn-over are neglected. The exact meaning of the expression, that the advanced

capital of 450 pounds sterling has made 5 2-3 turn-overs, is merely that it has completed five turn-overs fully and of the sixth only two-thirds. On the other hand, the expression that the turned-over capital is equal to 5 2-3 of the advanced capital, or, in the above case, 5 2-3 times 450 pounds sterling, making 2,550, is correct only in so far as it means that unless this capital of 450 pounds sterling were supplemented by another capital of 450 pounds sterling, one portion of it would have to be in the process of circulation while another is in the process of production. If the period of turn-over is to be expressed in the quantity of the turned-over capital, it can be expressed only in a quantity of existing values (embodied in the finished product). The fact that the advanced capital is not in a condition in which it may reopen the process of production is due to the circumstance that only a part of it is in a condition suitable for production, or that, in order to be in a condition suitable for continuous production, it would have to be divided into a portion which would be continually in the period of production and into another which would be continually in the period of circulation, according to the mutual relation of these periods. It is the same law which determines the quantity of the continually serving productive capital by the proportion of the time of circulation to the period of turn-over.

II.XV.37

As for capital II, 150 pounds sterling of it are advanced in the production of unfinished goods at the close of the 51st running week, which we regard here as the last of the year. Another part exists in the form of circulation constant capital‘raw materials, etc.,‘that is to say, in a form, in which it can serve as productive capital in the process of production. But a third part of it exists in the form of money, namely at least the amount of the wages for the remainder of the working period (3 weeks), which is not paid, however, until the end of each week. Now, although this portion of capital, in the beginning of a new year, and of a new cycle of turn-over, is not in the condition of productive capital, but in that of money-capital, in which it cannot take part in the process of production, there is, nevertheless, circulating variable capital, namely labor-power, active in the process of production at the opening of the new cycle of turn-over. This is due to the fact that labor-power is not paid until at the end of the week, although it was bought at the beginning of the working period, say, per week, and so consumed. Money serves here as a means of payment. For this reason, it is still in the hands of the capitalist, while on the other hand labor-power is already busy in the process of production. so that the same capital-value here appears twice.
II.XV.38

If we look merely at the working periods, then there has been produced:

By capital I, 5 2-3 times 450, or 2,550 pounds sterling,
By capital II, 5 1-3 times 450, or 2,400 pounds sterling,
Total, 5 2-3 times 900, or 5,100 pounds sterling.

II.XV.39

Hence the advanced capital of 900 pounds sterling has performed the function of productive capital 5 2-3 times per year. It is immaterial for the production of surplus-value, whether there are always 450 pounds sterling in the process of production and always 450 pounds sterling in the process of circulation, or whether 900 pounds sterling serve 4 1-2 weeks in the process of production and 4 1-2 weeks in the process of circulation.

II.XV.40

On the other hand, if we consider the periods of turn-over, there has been produced:

By capital I, 5 2-3 times 450, or 2,550 pounds sterling,
By capital II, 5 1-6 times 450, or 2,325 pounds sterling,

II.XV.41

Or, by the aggregate capital, 5 5-12 times 900, or 4,875 pounds sterling, in the total turn-over. For the turn-over of the total capital is equal to the sum of the quantities turned over by capital I and II, divided by the sum of I and II.
II.XV.42

It is to be noted, that capital I and II, if they were independent of one another, would nevertheless be merely different independent portions of the social capital advanced for the same sphere of production. Hence, if the social capital within this sphere of production were solely composed of I and II, the same calculation would apply to the turn-over of the social capital, which here applies to the two constituent parts I and II, of the same private capital. In a wider generalization, every portion of the entire social capital invested in any special sphere of production may be so calculated. But in the last analysis, the amount of the turn-over of the entire social capital is equal to the sum of the capitals turned over in the various spheres of production, divided by the sum of the capitals advanced in those spheres.
II.XV.43

It must be further noted that just as the capitals I and II in the same private business have, strictly speaking, different years of turn-over (the cycle of turn-over of capital II beginning 4 1-2 weeks later than that of capital I, so that the year of capital I closes 4 1-2 weeks

earlier than that of capital II), just so the various private capitals in the same sphere of production begin their activities at totally different sections of time and, therefore, conclude their years of turn-over at different times of the year. The same calculation of averages, which we employed above for capitals I and II, suffices also for the reduction of the years of turn-over of the various independent portions of the social capital to one uniform year of turn-over.

II. The Working Period Greater Than the Period of Circulation.

II.XV.44

The working and circulating periods of capitals I and II cross one another instead of relieving one another. Simultaneously some capital is set free. This was not so in the previously considered case.
II.XV.45

But this does not alter the fact that, as before, (1) the number of working periods of the advanced total capital is equal to the sum of the values of the annual products of both advanced portions of capital divided by the advanced total capital, and (2) the amount turned over by the total capital is equal to the sum of the two amounts turned over, divided by the sum of the two advanced capitals. Here, again, we must regard both portions of capital as though they performed movements of turn-over entirely independent of one another.

II.XV.46

We assume once more, then, that 100 pounds sterling are advanced weekly in the working process. Let the working period last 6 weeks, requiring every time an advance of 600 pounds sterling (capital I). Let the time of circulation be 3 weeks, so that the period of turn-over is 9 weeks, as before. Let a capital of 300 pounds sterling step in as a substitute during the three weeks of the time of circulation of capital I. Considering both capitals as independent of one another, we find the diagram of the annual turn-over to be as follows:

Table II.

CAPITAL I, 600 POUNDS STERLING.

	Periods of Turn-Over.	Working Periods.	Advance.	Periods of Circulation.
I.	1-9. week	1-6. week	600 p. st.	7.-9. week
II.	10-18. "	10-15. "	600 p. st.	16.-18. "
III.	19-27. "	19-24. "	600 p. st.	25.-27. "
IV.	28-36. "	28-33. "	600 p. st.	34.-36. "
V.	37-45. "	37-42. "	600 p. st.	43.-45. "
VI.	46-(54) "	46-51. "	600 p. st.	(52.-54). "

ADDITIONAL CAPITAL II, 300 POUNDS STERLING.

	Periods of Turn-over.	Working Periods.	Advance.	Periods of Circulation.

I.	7-15. week	7-9. week.	300 p. st.	10-15. week.
II.	16-24. "	16-18. " .	300 p. st.	19-24. " .
III.	25-33. "	25-27. " .	300 p. st.	28-33. " .
IV.	34-42. "	34-36. " .	300 p. st.	37-42. " .
V.	43-51. "	42-45. " .	300 p. st.	46-51. " .

II.XV.47

The process of production continues uninterruptedly all year on the same scale. The two capitals I and II remain entirely separate. But in order to represent them thus as separate, we had to tear apart their actual interrelations and intersections, and thus also to change the amount of turnover. For according to the above diagram, the amounts turned over would be:

Capital I, 2 2-3 times 600...	or 3,400 p. st.
Capital II, 5 times 300...	or 1,500 p. st.
Total capital...5 4-9 times 900,	or 4,900 p. st.

II.XV.48

But this is not correct, for we shall see that the actual periods of production and circulation do not absolutely coincide with the above diagrams, in which it was mainly a question of presenting capitals I and II as independent of one another.

II.XV.49

Now, in reality, capital II has no working and circulating periods separate and distinct from capital I. The working period is 6 weeks, the circulation period 3 weeks. Since capital II amounts to only 300 pounds sterling, it can fill out only a part of the working period. This is indeed the case. At the close of the 6th week, a product valued at 600 pounds sterling passes into circulation and flows back in money at the close of the 9th week. Then capital II begins its activity at the opening of the 7th week and responds to the requirements of the next working period for the 7th to 9th week. But according to our assumption, the working period is only half completed at the end of the 9th week. Hence, in the beginning of the 10th week, capital I of 600 pounds sterling, having just returned, comes once more into activity and advances 300 pounds sterling for the requirements of the 10th to 12th week. This completes the second working period. Products valued at 600 pounds sterling are once again in circulation and will return in money at the close of the 15th week. Furthermore, 300 pounds sterling are set free, equal to the original amount of capital II, and are enabled to serve in the first half of the following working period, that is to say, in the 13th to 15th week. After the lapse of these, the 600 pounds sterling flow back; 300 of them suffice for the remainder of the working period, 300 are set free for the following working period.

II.XV.50

The course of events is, therefore, as follows:

I. Period of turn-over 1-9. week.

1. Working period: 1-6. week. Capital I, of 600 p. st., performs its function.

1. Period of circulation: 7-9. week. After the lapse of the 9th week, 600 p. st. flow back in money.

II. Period of turn-over: 7-15 week.

2. Working period: 7-12. week.

First half: 7-9. week. Capital II, of 300 p. st., performs its function. After the lapse of the 9th week, 600 p. st. (capital I) flow back in money.

Second half: 10-12. week. 300 p. st. of capital I perform their function. The other 300 p. st. of capital I remain free.

2. Period of circulation: 13-15. week.

After the close of the 15. week, 600 p. st. (one half belonging to capital I, the other to capital II) flow back in money.

III. Period of turn-over: 13-21. week.

3. Working period: 13-18. week.

First half: 13-15. week. The free 300 p. st. perform their function. After the close of the 15th week, 600 p. st. flow back in money.

Second half: 16-18. week, 300 of the returned 600 perform their function, the other 300 again remain free.

3. Period of circulation: 19-21. week. After the close of the 21st week, 600 p. st. flow back in money. In this amount of 600 p. st., capital I and II are amalgamated and indistinguishable.

II.XV.51

In this way, there are eight full periods of turn-over of a capital of 600 p. st. (I: 1-9. week; II: 7-15. week; III: 13-21; IV: 19-27.; V: 25-33.; VI: 31-39.; VII: 37 -45.; VIII: 43-51) to the end of the 51st week. But as the 49-51st weeks fall within the eighth period of circulation, the 300 p. st., of free capital must step in and keep production moving. Thus the turn-over at the end of the year is as follows: 600 p. st. have completed their cycle eight times, making 4,800 p. st. In addition thereto we have the product of the last 3 weeks (49-51.), which, however, has completed but one third of its cycle of 9 weeks, so that it counts in the amount turned over only with one third of its value, 100 p. st. If, then, the annual product of

51 weeks is 5,100 p. st., the capital actually turned over is only 4,800 plus 100, or 4,900 p. st. The advanced total capital of 900 p. st. has, therefore, been turned over 5 4-9 times, somewhat more than in the first case.

II.XV.52

In the present example, we had assumed a case, in which the working time was 2-3, the circulation time 1-3, of the period of turn-over, so that the working time was a simple multiple of the circulation time. The question is now, whether capital is likewise set free, in the same way as shown before, when this assumption is not made.

II.XV.53

Let us assume a working time of 5 weeks, a circulation time of 4 weeks, and a capital advance of 100 p. st. per week.

I. Period of turn-over: 1-9. week.

1. Working period: 1-5. week. Capital I, of 500 p. st., performs its function.

1. Circulation period: 6-9. week. After the close of the 9th week, 500 p. st. flow back in money.

II. Period of turn-over: 6-14. week.

2. Working period: 6-10. week.

First section: 6-9. week. Capital II, of 400 p. st., performs its function. After the close of the 9th week, capital I, of 500 p. st., flows back in money.

Second section: 10. week. 100 of the returned 500 p. st. performs their function. The remaining 400 p. st. are set free for the following working period.

2. Circulation period: 11-14. week.

After the close of the 14. week, 500 p. st. flow back in money.

II.XV.54

Up to the end of the 14th week (11-14.), the free 400 p. st. perform their function; 400 of the 500 p. st. then returned fill the requirements of the third working period (11-15. week), so that 400 p. st. are once more set free for the fourth working period. The same phenomenon is repeated in every working period; in its beginning, 400 p. st. are ready at hand, sufficing for the requirements of the first 4 weeks. After the close of the 4th week, 500 p. st. flow back in

money, only 100 of which are needed for the last week, while the remaining 400 are set free for the next working period.
II.XV.55

Let us furthermore assume a working period of 7 weeks, with a capital I of 700 p. st.; a circulation period of 2 weeks, with a capital II of 200 p. st.
II.XV.56

In that case, the first period of turn-over lasts from the 1st to the 9th week; its first working period from the 1st to the 7th week, with an advance of 700 p. st., its first circulation period from the 8th to the 9th week. After the close of the 9th week, 700 p. st. flow back in money.
II.XV.57

The second period of turn-over, from the 8th to the 16th week, contains the second working period of the 8th to 14th week. The requirements of the 8th and 9th week of this period are covered by capital II. After the close of the 9th week, the above 700 p. st. flow back. Up to the close of this working period (10-14.), 500 p. st. of this sum are used up. 200 p. st. remain free for the next working period. The second circulation period lasts from the 15th to the 16th week. After the close of the 16th week, 700 p. st. flow back once more. From now on, the same phenomenon is repeated in every

working period. The demand in capital of the first two weeks is covered by the 200 p. st. set free at the close of the preceding working period; after the close of the second week, 700 p. st. flow back in money; but the working period lasts only 5 weeks longer, so that only 500 p. st. can be consumed; therefore, 200 p. st. always remain free for the next working period.
II.XV.58

We find, then, that in this case, where the working period has been assumed greater than the circulation period, there is under all circumstances a money-capital set free at the close of each working period, and this money-capital is of the same magnitude as capital II, which is advanced for the circulation time. In our three illustrations, capital II was 300 p. st., in the first, 400 p. st., in the second, 200 p. st. in the third example. Corresponding thereto, the capital set free at the close of each working period was 300, 400, and 200 p. st.

III. The Working Period Smaller Than The Circulation Period.

II.XV.59

We begin by assuming once more a period of turn-over of 9 weeks. Let the working period be 3 weeks, with an available capital I of 300 p. st. Let the circulation period be 6 weeks. For these 6 weeks, an additional capital of 600 p. st. is required. We may divide this in turn

into two portions of 300 p. st. each, so that each portion meets the requirements of one working period. We have, then, three capitals of 300 p. st. each, 300 of which are always busy in production, while 600 are circulating.

Table III.

CAPITAL I.

	Periods of Turn-Over.	Working Periods.	Periods of Circulation.
I.	1-9. week.	1-3. week.	4-9. week.
II.	10-18. " .	10-12. " .	13-18. " .
III.	19-27. " .	19-21. " .	22-27. " .
IV.	28-36. " .	28-30. " .	31-36. " .
V.	37-45. " .	37-39. " .	40-45. " .
VI.	46-(54.) " .	46-48. " .	49-(54.) " .

CAPITAL II.

	Periods of Turn-Over.	Working Periods.	Periods of Circulation.
I.	4-12. week.	4-6. week.	7-12. week.
II.	13-21. " .	13-15. " .	12-21. " .
III.	22-30. " .	22-24. " .	16-30. " .
IV.	31-39. " .	31-33. " .	25-39. " .
V.	40-48. " .	40-42. " .	24-48. " .
VI.	49-(57.) " .	49-51. " .	(52-57.) " .

CAPITAL III.

I.	7-15. week.	7-9. week.	10-15. week.
II.	16-24. " .	16-18. " .	19-24. " .
III.	25-33. " .	25-27. " .	28-33. " .
IV.	34-42. " .	34-36. " .	37-42. " .
V.	43-51. " .	43-45. " .	46-51. " .

II.XV.60

We have, here, the exact opposite of case I, only with the difference that now three capitals relieve one another instead of two. There is no intersection or intermingling of capitals. Each one of them can be traced separately to the end of the year. Capital is no more set free in this instance than in case one, at the close of a working period. Capital I is entirely consumed at the end of the 3rd week, flows back entirely at the end of 9th, and resumes its functions in the beginning of the 10th week. Similarly in the case of capitals II and III. The regular and complete relief excludes any release of capital.

II.XV.61

The total turn-over is calculated as follows:

Capital I, 300 times 5 2-3, or 1,700 p. st.
Capital II, 300 times 5 1-2, or 1,600 p. st.
Capital III, 300 times 5 , or 1,500 p. st.
Total capital 900 times 5 1-3, or 4,800 p. st.

II.XV.62

Let us now choose also an illustration, in which the circulation period is not an exact multiple of the working period. For instance, let the working period be 4 weeks, the circulation period 5 weeks. The corresponding amounts of capital would then be: Capital I, 400 p. st.; capital II, 400 p. st.; capital III, 100 p. st. We present only the first three turn-overs.

Table IV.

CAPITAL I.

Periods of Turn-Over.	Working Periods.	Periods of Circulation.
I. 1-9. week.	1-4. week.	5-9. week.
II. 9-17. " .	9. 10-12. " .	13-17. " .
III. 17-25. " .	17. 18-20. " .	21-25. " .

CAPITAL II.

I. 5-13. week.	5-8. week.	9-13. week.
II. 13-21. " .	13. 14-16. " .	17-21. " .
III. 21-29. " .	21. 22-29. " .	25-29. " .

CAPITAL III.

I. 9-17. week.	9. week.	10-17. week.
II. 17-25. " .	17. " .	17-21. " .
III. 25-33. " .	25. " .	26-33. " .

II.XV.63

There is in this case an intermingling of capitals to the extent that the working period of capital III, which has no independent working period, because it lasts only for one week, coincides with the first working period of capital I. On the other hand, an amount of 100 p. st., equal to capital III, is set free by capital I and II at the close of the working period. For when capital III fills out the first week of the second, and of all following working periods of capital I, and the entire capital I of 400 p. st. flows back at the close of this first week, then only 3 weeks and a corresponding capital of 300 p. st. remain for the rest of the working period of capital I. The 100 p. st. thus set free suffice for the first week of the immediately following working period of capital II; at the close of this week, the entire capital of 400 p. st. then flows back (capital II). But since the new working period can absorb only 300 p. st. more, there are once more 100 p. st. disengaged at its close. And so forth. There is, then, a setting free of capital at the close of a working period, as soon as the circulation period is not a simple multiple of the working period. And this released capital is equal to that portion of capital which has to fill out the excess of the circulating period over the working period, or over a multiple of working periods.
II.XV.64

In all cases investigated by us it was assumed that both the working period and the circulation period remain the same throughout the year in any of the businesses selected. This assumption was necessary, if

we wished to ascertain the influence of the time of circulation on the turn-over and advance of capital. It does not alter the matter, that this assumption is not borne out unconditionally in reality, and that it frequently does not apply at all.
II.XV.65

In this entire section, we have discussed only the turn-overs of the circulating capital, not those of the fixed. The reason is that this question has nothing to do with the fixed capital. The means of production employed in the process of production form fixed capital only to the extent that their time of employment exceeds the period of turn-over of circulating capital, so long as the time during which these instruments of labor continue to serve in continually repeated labor processes, is greater than the period of turn-over of circulating capital, in other words, comprises n periods of turn-over of circulating capital. Whether the total time represented by these n periods of turn-over of circulating capital, is long or short, that portion of productive capital which was advanced for this time in fixed capital is not advanced anew during its course. It continues its functions in its old use-form. The difference is merely this: According to the different lengths of the individual working periods of each period of turn-over of circulating capital, the fixed capital yields a greater or smaller portion of its original value to the product of this working period, and according to the duration of the time of circulation of each period of turn-over, this value yielded by the fixed capital to the product flows

back in money rapidly or slowly. The nature of the topic which we discuss in this section‘the turn-over of the circulating portion of productive capital‘is determined by the nature of this portion itself. The circulating capital employed in a working period cannot be invested in a new working period, until it has completed its turn-over, until it has been converted into commodity-capital, then into money-capital, and then back into productive capital. In order that the first working period may be immediately followed by a second, additional capital must be advanced and converted into the circulating elements of productive capital, and its quantity must be sufficient to fill out the void left by the circulation of the capital advanced for the first working period. This is the source of the influence exerted by the duration of the working period of the circulating capital over the scale of the process of production and the division of the advanced capital, or eventually the advance of new portions of capital. It is precisely this which we had to examine in this section.

IV. Conclusions

II.XV.66

From the preceding analyses, it follows that,
II.XV.67

A. The different portions, into which capital must be divided in order that one part of it may be continually in the working period while others are in the period of circulation, relieve one another like different independent private capitals, in two cases: First, when the working period is equal to the period of circulation, so that the period of turn-over is divided into two equal sections; secondly, when the period of circulation is longer than the working period, but at the same time represents a simple multiple of the working period, so that one period of circulation is equal to n working periods, in which case n must be a whole number. In these cases, no portion of the successively advanced capital is set free.
II.XV.68

B. On the other hand, in all cases in which, (1) the period of circulation is longer than the working period without being a simple multiple of it, and (2) in which the working period is longer than the circulation period, a portion of the circulating total capital is continually set free periodically at the close of each working period, beginning with the second turn-over. This free capital is equal to that portion of the total capital which has been advanced to fill out the time of circulation, provided the working period is longer than the period of circulation, and equal to that portion of capital which has to fill out the excess of the time of circulation over one working period, or over a multiple of one working period, provided the time of circulation is longer than the working time.

II.XV.69

C. It follows that for the aggregate social capital, so far as its circulating capital is concerned, the setting free of capital must be the rule, while the mere relieving of portions of capital following successively in the process of production must be the exception. For the equality of the period of work and circulation, or the equality of the period of circulation with a simple multiple of the working period, in other words, a similar proportion of the two portions of the period of turn-over has nothing to do with the nature of the case, and for this reason it cannot be found in general, but only in rare instances.
II.XV.70

A very considerable portion of the social circulating capital, which is turned over several times per year, will therefore exist periodically in the form of released capital during the annual cycle of turn-over.
II.XV.71

It is furthermore evident that, all other circumstances being equal, the magnitude of the released capital grows with the volume of the labor-process, or with the scale of production, or with the development of capitalist production in general. In the case cited under B (2), this will be so, because the advanced total capital increases, in B (1), because the length of the period of circulation grows with the development of capitalist production, hence the period of turn-over is lengthened in

cases where the working period is extended, without a regular proportion between the two periods.
II.XV.72

In the first case, for instance, we had to invest 100 p. st. per week. This required 600 p. st. for a working period of 6 weeks, 300 p. st. for a circulation period of 3 weeks, together 900 p. st. In that case, 300 p. st. are released continually. On the other hand, if 300 p. st. are invested weekly, we have 1,800 p. st. for the working period and 900 p. st. for the circulation period. Hence 900 instead of 300 p. st. are periodically released.
II.XV.73

D. The total capital, for instance 900 p. st., must be divided into two portions, for instance, 600 p. st. for the working period and 300 p. st. for the period of circulation. That portion, which is really invested in the labor-process, is thus reduced by one third, or from 900 to 600 p. st. The scale of production is thus reduced by one third. On the other hand, the 300 p. st. perform their function only to make the working period continuous, in order that 100 p. st. may be invested every week of the year in the labor-process.
II.XV.74

Abstractly speaking, it is the same, whether 600 p. st. work during 6 times 8, or 48 weeks (product 4,800 p. st.), or whether the total

capital of 900 p. st. is expended during 6 weeks in the labor-process and then kept fallow during the period of circulation of 3 weeks. In the latter case, it would be working, in the course of the 48 weeks, 5 1-3 times 6, or 32 weeks (product 5 1-3 times 900, or 4,800 p. st.), and be fallow for 16 weeks. But, apart from the greater decay of the fixed capital during the fallow of 16 weeks, and apart from the appreciation of labor, which must be rapid during the entire year, although it is employed only during a part of it, such a regular interruption of the process of production is irreconcilable with the operations of modern great industry. This continuity is itself a productive power of labor.
II.XV.75

Now, if we take a closer look at the released, or rather suspended, capital, we find that a considerable part of it must always be in the form of money-capital. Let us adhere to our illustration: Working period 6 weeks, period of circulation 3 weeks, expenditure per week 100 p. st. In the middle of the second working period, after the close of the 9th week, 600 p. st. flow back, and 300 of them must be invested for the remainder of the working period. After the close of the second working period, 300 p. st. are then released. In what condition are these 300 p. st.? We will assume that 1-3 is invested for wages, 2-3 for raw materials and auxiliary substances. Then 200 of the returned 600 p. st. exist in the form of money for wages, and 400 p. st. in the form of a productive supply, in the form of elements

of the constant circulating productive capital. But since only one half of this productive supply is required for the second half of the second working period, the other half is for 3 weeks in the form of a surplus, that is to say, of a productive supply exceeding the requirements of one working period. The capitalist, on the other hand, knows that he needs only one-half (200 p. st.) of this portion (400 p. st.) of the returned capital for the current working period. It will, therefore, depend on market conditions, whether he will immediately reconvert these 200 p. st. entirely or partially into a surplus productive supply, or reserve them entirely or partially in the form of money in the expectation that the conditions of the market will improve. It goes without saying, that the portion of capital to be used for the payment of wages (200 p. st.) is reserved in the form of money. The capitalist cannot store labor-power in warehouses after he has bought it, as he may do with the raw material. He must incorporate it in the process of production and he pays for it at the end of the week. At least these 100 p. st. of the released capital of 300 p. st. will, therefore, have the form of money not required for the working period. The capital released in the form of money-capital must therefore be at least equal to the variable portion of capital invested in wages. At a maximum, it may comprise the entire released capital. In reality it fluctuates continually between this minimum and maximum.
II.XV.76

The money-capital released by the mere mechanism of the movement of turn-over (together with the successive reflux of fixed capital and the money-capital required in every labor-process for variable capital) must play an important role, as soon as the credit system develops, and must at the same time be one of its foundations.
II.XV.77

Let us assume that the time of circulation in our illustration is contracted from 3 weeks to 2. This is not to be a normal change, but due, say, to prosperous times, shortened terms of payment, etc. The capital of 600 p. st., which is expended during the working period, flows back one week earlier than needed, it is therefore released for this week. Furthermore, in the middle of the working period, as before, 300 p. st. are released (a portion of those 600 p. st.), but in this case for 4 weeks instead of 3. There are then on the money market 600 p. st. for one week, and 300 p. st. for 4 weeks instead of 3. As this concerns not one capitalist alone, but many, and occurs at various periods in different businesses, it brings more available money-capital on the market. If this condition last for a long time, production will be expanded, wherever feasible. Capitalists working with borrowed money will bring less demand to bear on the money-market, whereby it is relieved as much as it is by an increased supply. Or, finally, the sums made superfluous by the mechanism are thrown definitely on the money-market.
II.XV.78

In consequence of the contraction of the period of turnover from 3 weeks to 2, and thus of the period of turn-over from 9 weeks to 8, one ninth of the advanced total capital becomes superfluous. The working period of 6 weeks can now be kept going as continuously with 800 p. st. as formerly with 900. One portion of the value of the commodity-capital, equal to 100 p. st., therefore persists in the form of money-capital without performing any more functions as a part of the capital advanced for the process of production. While production is continued on the same scale and with other conditions, such as prices, etc., remaining equal, the value of the advanced capital is reduced from 900 to 800 p. st. The remainder of the originally advanced value, to the amount of 100 p. st., is released in the form of money-capital. As such it passes over into the money-market and forms an additional portion of the capitals serving in that capacity. II.XV.79

This shows the way in which a plethora of money may arise‘quite apart from the reason that the supply of money may be greater than the demand for it; this eventuality causes always but a relative plethora, which occurs, for instance, in the "melancholy period" opening a new cycle after a commercial crisis. In our case we speak of a plethora in the sense that a definite portion of the capital advanced for the promotion of the entire process of social reproduction, including the process of circulation, becomes superfluous

and is, therefore, released in the form of money-capital. This plethora comes about by the mere contraction of the period of turn-over, while the scale of production and prices remain the same. The amount of money in the circulation, whether great or small, did not exert the least influence on this.
II.XV.80

Let us assume, on the other hand, that the period of circulation is prolonged from 3 weeks to 5. In that case, the reflux of the advanced capital takes place 2 weeks too late at the very next turn-over. The last part of the process of production of this working period cannot be carried on, the mechanism of the turn-over of the advanced capital itself interfering. In case of a longer duration of this condition, a contraction of the process of production, a reduction of its volume, might take place, just as an extension did in the previous case. But in order to continue the process on the same scale, the advanced capital would have to be increased by 2-9, or 200 p. st., for the entire duration of the prolongation of the circulation period. This additional capital can be obtained only from the money-market. If, then, the prolongation of the period of circulation applies to one or more great lines of business, it may cause a pressure on the money-market, unless this effect is compensated by some counter-effect from some other direction. In this case likewise it is evident and obvious that such a pressure is not in the least due to a change in the prices

of the commodities nor to the quantity of the existing means of circulation.
II.XV.81

(The preparation of this chapter for publication has given me no small amount of difficulties. Expert as Marx was in algebra, the handling of figures in arithmetic nevertheless gave him a great deal of trouble and he lacked especially the practice of commercial calculation, although he left behind a ponderous volume of computations in which he had practiced by many examples the entire variety of commercial reckoning. But a knowledge of the various modes of calculation and a practice in the daily practical calculations of the merchant are by no means the same. Consequently Marx entangled himself to such an extent in his computation of turn-overs, that the result, so far as he completed his work, contained various errors and contradictions. In the diagrams given above, I have preserved only the simplest and arithmetically correct data, and my reason for so doing was mainly the following:

The indefinite results of this tedious calculation have led Marx to attribute an undeserved importance to a circumstance, which, in my opinion, has actually little significance. I refer to that which he calls the "release" of money-capital. The actual state of affairs, based on the above premises, is this:

No matter what may be the proportion in the magnitude of the working and circulation periods, or of capital I and II, there is returned to the capitalist, in the form of money, at the end of the first turn-over, in regular intervals of the duration of one working period, the capital required for each working period, a sum equal to capital I.

If the working period is 5 weeks, the circulation period 4 weeks, and capital I 500 p. st., then a sum of money equal to 500 p. st. flows back periodically at the end of the 9th, 14th, 19th, 24th, 29th, etc., week.

If the working period is 6 weeks, the circulation period 3 weeks, and capital I 600 p. st., then 600 p. st. flow back periodically at the end of the 9th, 15th, 21st, 27th, 33rd, etc., week.

Finally, if the working period is 4 weeks, the circulation period 5 weeks, and capital I 400 p. st., then 400 p. st. are periodically returned at the end of the 9th, 13th, 17th, 21st, 25th, etc., week.

Whether any of this returned money is superfluous, and thus released, for the current working period, and how much of it, makes no difference. It is assumed that production continues uninterruptedly on the same scale, and in order that this may be possible, money must

be available and must, therefore, flow back, whether "released" or not. If production is interrupted, release stops likewise.

In other words: There is indeed a release of money, a formation of latent, or merely potential, capital in the form of money. But it takes place under all circumstances, and not only under the conditions enumerated especially in the above analysis; and it takes place on a larger scale than that assumed there. So far as circulating capital I is concerned, the industrial capitalist, at the end of each turn-over, is in the same situation as at the establishment of his business: he has all of it in his hands in one bulk, while he can convert it only gradually back into productive capital.

The essential point in the above analysis is the demonstration that, on one hand, a considerable portion of the industrial capital must always be available in the form of money, and, on the other hand, a still more considerable portion must temporarily assume the form of money. This proof is, if anything, still more emphasized by these additional remarks of mine.‘F. E.)

V. The Effect of a Change of Prices

II.XV.82

We had assumed that prices remained the same and the scale of production remained unaltered, while, on the other hand, the time of circulation was either contracted or expanded. Now let us assume, on the contrary, that the period of turn-over remains the same, likewise the scale of production, while prices change, that is to say, either the prices of the raw materials, auxiliaries, and labor-power rise or fall, or those of the two first-named elements alone. Take it, that the price of raw materials, auxiliaries, and labor-power falls by one half. In that case, the capital to be advanced in our above examples would be 50 instead of 100 p. st. per week, and that for the period of turn-over of 9 weeks, 450 p. st., instead of 900. A sum of 450 p. st. of the advanced capital is released in the form of money-capital, but the process of production continues on the same scale and with the same period of turn-over, and with the same sub-division as before. The quantity of the annual product likewise remains the same, but its value has fallen by one half. This change, which is at the same time accompanied by a change in the demand and supply of money-capital, is due neither to an acceleration of the turn-over, nor to a change in the quantity of money in circulation. On the contrary. A fall in the value, or price, of the elements of productive capital by one half would first have the effect of reducing by one half the capital-value to be advanced for the continuation of the business of X in the same scale, so that only one half of the money would have to be thrown on the market by the business of X, since the business of X advances this capital-value first in the form of money, of money-capital. The

amount of money thrown into circulation would have decreased, because the prices of the elements of production had fallen. This would be the first effect.
II.XV.83

In the second place, one half of the originally advanced capital of 900 p. st. or 450 p. st., which (a) passed alternately through the forms of money-capital, productive capital, and commodity-capital, and (b) existed simultaneously and continuously side by side partly in the form of money-capital, partly in the form of productive capital, partly in the form of commodity-capital, would be eliminated from the rotation of the business of X, and thus come into the money market as an additional capital, affecting it as such. These released 450 p. st. serve as money-capital, not because they have become superfluous for the operation of the business of X, but because they were a constituent portion of the original capital-value, so that they are intended for further service as capital, not as mere means of circulation. The next form in which they may serve as capital is that of money on the money-market. Or, the scale of production (apart from fixed capital) might be doubled. In that case a productive process of double the previous volume would be carried on with a capital of 900 p. st.
II.XV.84

If, on the other hand, the prices of the circulating elements of productive capital were to increase by one half, it would require 150

p. st. per week instead of 100 p. st., or 1,350 instead of 900 p. st. An additional capital of 450 p. st. would be needed to carry on production on the same scale, and this would exert a pressure to that extent, according to the condition of the money-market, on the quotations of money. If all the capital available on this market were then engaged, there would be an increased competition for available capital. If a portion of it were unemployed, it would to that extent be called into action.
II.XV.85

But, in the third place, given a certain scale of production, the velocity of the turn-over and the prices for the circulating elements of productive capital remaining the same, the price of the product of the business of X may rise or fall. If the price of the commodities supplied by the business of X falls, the price of his commodity-capital of 600 p. st., which it threw continually into circulation, sinks, for instance, to 500 p. st. In that case, one sixth of the value of the advanced capital does not flow back from the process of circulation, (the surplus-value contained in the commodity-capital is not considered here), and it is lost in circulation. But since the value, or price, of the elements of production remains the same, this reflux of 500 p. st. suffices only to replace 5-6 of the capital of 600 p. st. engaged in the process of production. It requires therefore an addition of 100 p. st. of money-capital to continue production on the same scale.
II.XV.86

Vice versa, if the price of the product of the business of X were to rise, then the price of the commodity-capital of 600 p. st. would be increased, say to 700 p. st. One seventh of this price, or 100 p. st., does not come from the process of production, has not been advanced in it, but flows from the process of circulation. But only 600 p. st. are needed to replace the elements of production. Therefore 100 p. st. are set free.
II.XV.87

It does not fall within the scope of the present analysis to ascertain why, in the first case, the period of turn-over is abbreviated or prolonged, why, in the second case, the prices of raw materials and auxiliaries, in the third case, those of the products supplied by the business, rise or fall.
II.XV.88

But the following points fall under this analysis:

I. CASE.'A CHANGE IN THE PERIOD OF CIRCULATION, AND THUS OF TURN-OVER, WHILE THE SCALE OF PRODUCTION, AND THE PRICES OF THE ELEMENTS OF PRODUCTION AND OF PRODUCTS REMAIN THE SAME.

II.XV.89

According to the assumptions of our example, one ninth less of the advanced total capital is needed after the contraction of the period of circulation, so that the total capital is reduced from 900 to 800 p. st. and 100 p. st. of money-capital are released.
II.XV.90

The business of X supplies the same as ever a six weeks' product of the same value of 600 p. st., and as work continues without interruption during the entire year, the same quantity of products, valued at 5,100 p. st., is supplied in 51 weeks. There is, then, no change so far as the quantity and price of the product thrown into circulation by this business are concerned, nor in the terms of time in which it throws its product on the market. But 100 p. st. are released, because the requirements of the productive process are satisfied with 800 instead of 900 p. st., after the contraction of the period of circulation. The released 100 p. st. of capital exist in the form of money-capital. But they do not by any means represent that portion of the advanced capital, which would have to serve continually in the form of money-capital. Let us assume that 4-5, or 480 p. st. of the advanced circulating capital are continually invested in material elements of production, and 1-5, or 120 p. st., in labor-power. Then the weekly investment in materials of production would be 80 p. st., and in labor-power 20 p. st. Of course, capital II, of 300 p. st., must also be divided into 4-5, or 240 p. st., for materials of production,

and 1-5, or 60 p. st., for wages. The capital invested in wages must always be advanced in the form of money. As soon as the commodity-product to the amount of 600 p. st. has been reconverted into money, 480 p. st. of it may be transformed into materials of production (productive supply), but 120 p. st. retain their money-form, in order to serve in the payment of wages for six weeks. These 120 p. st. are the minimum of the returning capital of 600 p. st., which must always be renewed in the form of money-capital and so replaced, and therefore this minimum must always be kept on hand as that portion of the advanced capital which serves in its money-form.
II.XV.91

Now, if 100 p. st. of the capital of 300 p. st. periodically released for three weeks, and likewise divided into 240 p. st. of a productive supply and 60 p. st. of wages, are entirely eliminated in the form of money-capital by the contraction of the circulation time, if they are completely removed from the mechanism of the turn-over, where does the money for these 100 p. st. of money-capital come from? This amount consists only one fifth of money-capital periodically released within the turn-overs. But four fifths, or 80 p. st., are already replaced by an additional productive supply of the same value. In what manner is this additional productive supply converted into money, and whence comes the money for this conversion?
II.XV.92

If the contraction of the period of circulation has become a fact, then only 400 p. st. of the above 600, instead of 480, are reconverted into a productive supply. The other 80 p. st. are retained in their money-form and constitute, together with the above 20 p. st. for wages, the 100 p. st. eliminated from the process. Although these 100 p. st. come from the circulation by means of the purchase of the 600 p. st. of commodity-capital and are now withdrawn from it, because they are not re-invested in wages and materials of production, yet it must not be forgotten that, in their money-form, they are once more in that form in which they were originally thrown into circulation. In the beginning 900 p. st. were invested in a productive supply and wages. Now only 800 p. st. are required in order to carry along the same productive process. The 100 p. st. thus withdrawn in money now form a new money-capital seeking investment, a new constituent part of the money-market. True, they were previously periodically in the form of released money-capital and of additional productive capital, but these latent forms were the conditions for the promotion and continuity of the process of production. Now they are no longer needed for this purpose, and for this reason they form a new money-capital and a constituent part of the money-market, although they are neither an additional element of the existing social money-supply (for they existed at the beginning of the business and were thrown by it into the circulation), nor a newly accumulated hoard.
II.XV.93

These 100 p. st. are now indeed withdrawn from circulation inasmuch as they are a portion of the advanced money-capital and are no longer employed in the same business. But this withdrawal is possible only because the conversion of the commodity-capital into money, and of this money into productive capital, in the metamorphosis C'‘M‘C, is accelerated by one week, so that the circulation of the money engaged in this process is likewise hastened. This sum is withdrawn from circulation, because it is no longer needed for the turn-over of the capital of X.
II.XV.94

It has been assumed here, that the capital belongs to him who invests it. But if he had borrowed it, nothing would be altered in these conditions. With the contraction of the period of circulation, he would need only 800 p. st. of borrowed money instead of 900. This sum of 100 p. st., if returned to the lender, forms nevertheless 100 p. st. of new money-capital, only in the hands of Y instead of X. If the capitalist X receives his materials of production to the amount of 480 p. st. on credit, so that he has only to advance 120 p. st. for wages out of his own pocket, then he would now have to purchase 80 p. st.'s worth of goods less on credit, so that this sum would constitute an excess of commodity-capital for the capitalist giving it on credit, while the capitalist X would have released 20 p. st. of his money.

II.XV.95

The additional supply for production is now reduced by one-third. It consisted of 240 p. st.'s worth of goods, constituting four-fifths of additional capital II of 300 p. st., but now it consists only of 160 p. st.'s worth of goods. It is an additional productive supply for 2 instead of 3 weeks. It is now renewed every 2 weeks, instead of every 3, but only for the next 2 instead of the next 3 weeks. The purchases, for instance, on the cotton market, are repeated more frequently and in smaller portions. The same portion of cotton is withdrawn from the market, for the quantity of the product remains the same. But the withdrawal is distributed differently in time, extending over a longer period. Take it that it is a question of 3 months or 2. If the annual consumption of cotton amounts to 1,200 bales, the sales in the first case will be:

January 1, 300 bales, remaining in storage 900 bales.
April 1, 300 bales, remaining in storage 600 bales.
July 1, 300 bales, remaining in storage 300 bales.
October 1, 300 bales, remaining in storage 0 bales.

II.XV.96

But in the second case, the situation would be:

January 1, sold 200, remaining in storage 1,000 bales.
March 1, sold 200, remaining in storage 800 bales.
May 1, sold 200, remaining in storage 600 bales.
July 1, sold 200, remaining in storage 400 bales.
September 1, sold 200, remaining in storage 200 bales.
November 1, sold 200, remaining in storage 0 bales.

II.XV.97

In other words, the money invested in cotton flows back completely one month later, in November instead of October. If, therefore, one-ninth of the advanced capital, or 100 p. st., is eliminated in the form of money by the contraction of the period of circulation, and if these 100 p. st. are composed of 20 p. st. of periodically released money-capital for the payment of wages, and of 80 p. st. existing periodically as a released productive supply for one week, then the reduction of the productive supply in the hands of the manufacturer, so far as these 80 p. st. are concerned, corresponds to an increase of the cotton supply in the hands of the cotton dealer. The same cotton retains as much longer in his warehouse the form of a commodity as it stays a shorter time in the hands of the manufacturer under the form of a productive supply.

II.XV.98

Hitherto we assumed that the contraction of the time of circulation was due to the fact that X sold his articles more rapidly, received his money for them in a shorter time, or, in the case of credit, that his time of payment was reduced. In that case, the contraction was attributed to the sale of the commodities, to the conversion of commodity-capital into money-capital, C'‘M, the first phase of the process of circulation. But it might also be due to the second phase, M‘C, and hence to a simultaneous change, either in the working period, or in the time of circulation of the capitals Y, Z, etc., which supply the capitalist X with the elements of production of his circulating capital.
II.XV.99

For instance, if cotton, coal, etc., with the old methods of transportation, are three weeks in transit from their place of production or storage to the location of the factory of the capitalist X, then the minimum supply of X up to the arrival of new transports must last for three weeks. So long as cotton and coal are in transit, they cannot serve as means of production. They are then rather an object of labor in the transportation industry and of the capital invested in it, they represent for the producer of coal or the dealer in cotton a commodity-capital in process of circulation. Now let improvements in transportation reduce the transit to two weeks. Then the productive supply can be transformed from a three-weekly into a fortnightly supply. This releases the additional capital of 80 p. st. set

aside for the purchase of the weekly supply, and likewise the 20 p. st. for wages, because the turned-over capital of 600 p. st. returns one week earlier.
II.XV.100

On the other hand, if the working period of the capital invested in raw materials is contracted (examples of this case were given in the preceding chapter), so that the possibility of renewing the productive supply in a shorter time is given, then the productive supply may be reduced, the interval between the periods of renewal being shortened.
II.XV.101

If, vice versa, the time of circulation and thus the period of turn-over are prolonged, then advance of additional capital is necessary. This must come out of the pockets of the capitalist himself, provided he has any additional capital. If he has, it will be invested in some way, in some portion of the money-market. In order to make it available, it must be detached from its old form, for instance, stocks must be sold, deposits withdrawn, so that there is indirectly an effect on the money-market, also in this case. Or, he must borrow it. As for that portion of the additional capital which is to be invested in wages, it must under normal conditions always be advanced in the form of money, and the capitalist X exerts to that extent his share of a direct pressure on the money-market. But so far as that portion is concerned which must be invested in materials of production, money

is indispensable only if he must pay for them in cash. If he can get them on credit, this does not exert any direct influence on the money-market, because the additional capital then is directly advanced in the form of a productive supply, not in the first instance in money. But if the lender throws the note received from X directly on the market and discounts it, this would to that extent influence the money-market indirectly.

II. CASE.'A CHANGE IN THE PRICE OF MATERIALS OF PRODUCTION, ALL OTHER CIRCUMSTANCES REMAINING THE SAME.

II.XV.102

We just assumed that the total capital of 900 p. st. was four-fifths invested in materials of production (720 p. st.) and one-fifth in wages (180 p. st.).
II.XV.103

If the price of the materials of production drops by one-half, then a working period of 6 weeks requires only 240 p. st. instead of 480 for their purchase, and an additional capital of only 120 p. st. instead of 240 p. st. Capital I is then reduced from 600 p. st. to 240 plus 120, or 360 p. st., and capital II from 300 to 120 plus 60, or 180 p. st. The total capital of 900 is therefore reduced to 360 plus 180, or 540 p. st. A sum of 360 p. st. is eliminated.

II.XV.104

This eliminated and now unemployed capital, which seeks investment in the money-market, is nothing but a portion of the originally advanced capital of 900 p. st. This portion has become superfluous by the fall in the price of the materials of production, so long as the business is carried along on the same scale and not expanded. If this fall in prices is not due to accidental circumstances, such as a rich harvest, over-supply, etc., but to an increase of productive power in the line which supplies the raw materials, then this money-capital is an absolute addition to the money-market, or in general to the capital available in the form of money-capital, because it no longer constitutes an integral portion of the capital already invested.

III. CASE.‘A CHANGE IN THE MARKET PRICE OF THE PRODUCTS THEMSELVES.

II.XV.105

In this case, a fall in prices means a loss of a portion of capital, which must be made good by a new advance of additional money-capital. This loss of the seller may be recovered by the buyer. It is recovered by the buyer directly, if the market price of the product has fallen merely through an accidental fluctuation of the market and rises once more to its normal level. It is recovered indirectly, if the change

of prices is caused by a change of value reacting on the product, and if this product passes as an element of production into another sphere of production and there releases capital to that extent. In either case, the capital lost by X, for the replacement of which he touches the money-market, may be introduced by his business friends as a new additional capital. Then there is a simple transfer of capital.
II.XV.106

If, on the other hand, the price of the product rises, then a portion of the capital which was not advanced is taken away from the circulation. This is not an organic portion of the capital advanced in this process of production and constitutes, therefore, eliminated money-capital, unless production is expanded. As we assumed that the prices of the elements of production were fixed before the product came upon the market, an actual change of value might have caused the rise of prices to the extent that it is retroactive, causing a subsequent rise in the price of raw material. In such an eventuality, the capitalist X would realize a gain on his product circulating as a commodity-capital and on his available productive supply. This gain would give him an additional capital, which would be needed for the continuation of his business with the new and higher prices of the elements of production.
II.XV.107

Or, the rise of prices is but temporary. To the extent that additional capital is then needed on the side of the capitalist X, the same amount is released on another side, inasmuch as his product is an element of production for other lines of business. What the one has lost, the other wins.

Notes for this chapter

32.
The weeks falling within the second year of turn-over are placed in parentheses.

Part II,

Volume II Chapter XVI THE TURN-OVER OF THE VARIABLE CAPITAL.

I. THE ANNUAL RATE OF SURPLUS-VALUE.

II.XVI.1

We start out with a circulating capital of 2500 p. st., four-fifths of which, or 2000 p. st., are constant capital (materials of production), and one-fifth of which, or 500 p. st., is variable capital invested in wages.
II.XVI.2

Let the period of turn-over be 5 weeks; the working period 4 weeks, the period of circulation 1 week. Then capital I is 2000 p. st., consisting of 1600 p. st. of constant capital and 400 p. st. of variable capital; capital II is 500 p. st., 400 of which are constant and 100 variable. In every working week, a capital of 500 p. st. is invested. In a year of 50 weeks an annual product of 50 times 500, or 25,000 p. st., is manufactured. The capital I, continuously invested in one working period and amounting to 2000 p. st., is turned over 12½ times. 12½ times 2000 make 25,000 p. st. Of this sum of 25,000 p. st., four-fifths, or 20,000 p. st., are constant capital invested in materials of production, and one-fifth, or 5000 p. st., is variable capital invested in wages. The total capital of 2500 p. st. is turned over 10 times, which is 25,000 divided by 2500.
II.XVI.3

The variable circulating capital expended in production can serve afresh in the process of circulation only to the extent that the product in which its value is reproduced is sold, converted from a commodity-capital into a money-capital, in order to be once more expended in the payment of labor-power. But the same is true of the constant circulating capital invested in production for materials, the value of which reappears as a portion of the value of the product. That which is common to these two portions of the circulating capital, the variable and constant capital, and which distinguishes them from the fixed

capital, is not that the value transferred from them to the product is circulated by the commodity-capital, circulated as a commodity through the circulation of the product. For one portion of the value of the product, and thus of the product circulating as a commodity, the commodity-capital, always consists of the wear of the fixed capital, that is to say, of that portion of the value of the fixed capital which is transferred to the product during the process of production. The difference is rather this: The fixed capital continues to serve in the process of production in its old natural form for a longer or shorter cycle of periods of turn-over of the circulating capital (which consists of constant circulating plus variable circulating capital), while every single turn-over is conditioned on the reproduction of the entire circulating capital passing from the sphere of production in the form of commodity-capital into the sphere of circulation. The constant and variable circulating capital both have in common the first phase of the circulation, C'‘M'. But in the second phase they separate. The money, into which the commodity is reconverted, is in part transformed into a productive supply (constant circulating capital). According to the different terms of purchase of this material, a portion may be sooner, another later, converted from money into materials of production, but finally it is wholly consumed that way. Another portion of the money realized by the sale of the commodity is held in the form of a money-supply, in order to be gradually expanded in the payment of labor-power incorporated in the process of production. This portion constitutes the variable circulating capital. Nevertheless the entire

reproduction of either portion is due to the turn-over of the capital, to their conversion into a product, from a product into a commodity, from a commodity into money. This is the reason why, in the preceding chapter, the turn-over of the circulating constant and variable capital was discussed separately and simultaneously without any regard to the fixed capital.
II.XVI.4

For the purposes of the question which we have to discuss now, we must go a step farther and proceed with the variable portion of the circulating capital as though it constituted the circulating capital by itself. In other words, we leave out of consideration the constant circulating capital which is turned over together with it.
II.XVI.5

A sum of 2500 p. st. has been advanced, and the value of the annual product is 25,000 p. st. But the variable portion of the circulating capital is 500 p. st. The variable capital contained in 25,000 p. st. therefore amounts to 25,000 divided by 5, or 5000 p. st. If we divide these 5000 p. st. by 500, we find that 10 is the number of turn-overs, just as it is in the case of the total capital of 2500 p. st.
II.XVI.6

Here, where it is only a question of the production of surplus-value, it is quite correct to make this average calculation, according to which

the value of the annual product is divided by the value of the advanced capital, not by the value of that portion of this capital which is employed continually in one working period (in the present case not by 400, but by 500, not by capital I, but by capital I plus II). We shall see later, that, from another point of view, this is not quite exact. In other words, this calculation serves well enough for the practical purposes of the capitalist, but it does not express exactly or appropriately all the real circumstances of the turn-over.
II.XVI.7

We have hitherto ignored one portion of the commodity-capital, namely the surplus-value contained in it, which was produced during the process of production and incorporated in the product. We have now to direct our attention to this.
II.XVI.8

Take it, that the variable capital of 100 p. st. expended weekly produces a surplus-value of 100%, or 100 p. st., then the variable capital of 500 p. st., advanced for a period of turn-over of 5 weeks, produces 500 p. st. of surplus-value, in other words, one-half of the working day consists of surplus-labor.
II.XVI.9

If 500 p. st. of variable capital produce a surplus-value of 500 p. st., then 5000 p. st. produce ten times 500, or 5000 p. st. of surplus-

value. The proportion of the total quantity of surplus-value produced during one year to the value of the advanced variable capital is what we call the annual rate of surplus-value. In the present case, this is as 5000 to 500, or 1000%. If we analyze this rate more closely, we find that it is equal to the rate of surplus-value produced by the advanced variable capital during one period of turn-over, multiplied by the number of turn-overs of the variable capital (which coincides with the number of turn-overs of the entire circulating capital).
II.XVI.10

The variable capital advanced in the present case for one period of turn-over is 500 p. st. The surplus-value produced during this period is likewise 500 p. st. The rate of surplus-value for one period of turn-over is, therefore, as 500 s to 500 v, or 100%. This 100%, multiplied by 10, the number of turn-overs in one year, makes 1000%, a rate of 5000 to 500.
II.XVI.11

This applies to the annual rate of surplus-value. As for the quantity of surplus-value obtained during a certain period of turn-over, it is equal to the value of the variable capital advanced for this period, in the present case 500 p. st., multiplied by the rate of surplus-value, in the present case, therefore, 500 times 100-100, or 500 times 1, or 500 p. st. If the advanced variable capital were 1500 p. st., with the same

rate of surplus-value, then the quantity of surplus-value would be 1500 times 100-100, or 1500 p. st.
II.XVI.12

The variable capital of 500 p. st., which is turned over ten times per year, producing a surplus-value of 5000 p. st., and thus having a rate of surplus-value amounting to 1000%, shall be called capital A.
II.XVI.13

Now let us assume that another variable capital, B, of 5000 p. st., is advanced for one whole year (that is to say for 50 working weeks), so that it is turned over only once a year. We assume furthermore that, at the end of the year, the product is paid for on the same day that it is finished, so that the money-capital, into which it is converted, flows back on the same day. The circulation time is then zero, the period of turn-over equal to the working period, that is to say, one year. As in the preceding case, so there is now in the labor-process of each week a variable capital of 100 p. st., or of 5000 p. st., in 50 weeks. Let the rate of surplus-value be likewise the same, or 100%, that is to say, one-half of the working day of the same length as before consists of surplus-labor. If we study a period of 5 weeks, then the advanced variable capital is 500 p. st., the rate of surplus-value 100%, the quantity of surplus-value produced in 5 weeks likewise 500 p. st. The quantity of labor-power, which is here

exploited, and the intensity of its exploitation, are assumed to be the same as those of capital A.
II.XVI.14

In each week, the invested variable capital of 100 p. st. produces a surplus-value of 100 p. st., hence in 50 weeks the total invested capital produces a surplus-value of 50 times 100, or 5000 p. st. The quantity of the surplus-value produced per year is the same as in the previous case, 5000 p. st., but the annual rate of surplus-value is entirely different. It is equal to the surplus-value produced in one year, divided by the advanced variable capital, that is to say it is as 5000 s to 5000 v, or 100%, while in the case of capital A it was 1000%.
II.XVI.15

In the case of both capitals A and B, we have invested a variable capital of 100 p. st. per week. The rate of surplus-value per week, or the intensity of self-expansion, is likewise the same, 100%, so is the magnitude of the variable capital the same, 100 p. st. The same quantity of labor-power is exploited, the volume and intensity of exploitation are equal in both cases, the working days are the same and subdivided in the same way in necessary labor and surplus-labor. The quantity of variable capital employed in the course of the year is 5000 p. st. in either case, sets the same amount of labor in motion, and extracts the same amount of surplus-value from the labor power

set in motion by these two equal capitals, namely 5000 p. st. Nevertheless, there is a difference of 900% in the annual rate of surplus-value of the two capitals A and B.
II.XVI.16

This phenomenon makes indeed the impression as though the rate of surplus-value were not only dependent on the quantity and intensity of exploitation of the labor-power set in motion by the variable capital, but also on inexplicable influences arising from the process of circulation. It has actually been so interpreted, and has completely routed the Ricardian school since the beginning of the twenties of the 19th century, at least in its more complicated and disguised form, that of the annual rate of profit, if not in the simple and natural form indicated above.
II.XVI.17

The strangeness of this phenomenon disappears at once, when we place capital A and B in exactly the same conditions, not seemingly, but actually. These equal circumstances are present only when the variable capital B is expended in the payment of labor-power in its entire volume and in the same period of time as capital A.
II.XVI.18

In that case, the 5000 p. st. of capital B are invested for 5 weeks. 1000 p. st. per week makes an investment of 50,000 p. st. per year.

The surplus-value is then likewise 50,000 p. st., according to our assumption. The turned-over capital of 50,000 p. st., divided by the advanced capital of 5000 p. st., makes the number of turn-overs 10. The rate of surplus-value, 5000 to 5000, or 100%, multiplied by the number of turn-overs, 10, makes the annual rate of surplus-value as 50,000 to 5000, or 10 to 1, or 1000%. Now the annual rates of surplus-value for A and B are alike, namely 1000%, but the quantities of surplus-value are 50,000 p. st. in the case of B, and 5000 p. st. in the case of A. The quantities of the produced surplus-values now are proportioned to one another as the advanced capital-values of B and A, to-wit: as 50,000 to 5000, or 10 to 1. But at the same time, capital B has set in motion ten times as much labor-power as capital A has in the same time.
II.XVI.19

It is only the capital actually invested in the working process which produces any surplus-value and for which all laws relating to surplus-value are in force including for instance the law according to which the quantity of surplus-value is determined by the relative magnitude of the variable capital if the rate of surplus-value is given.
II.XVI.20

The labor-process itself is determined by the time. If the length of the working period is given (as it is here, where we assume all circumstances relating to A and B to be equal, in order to elucidate

the difference in the annual rate of surplus-value), the working week consists of a certain number of working days. Or, we may consider any working period, for instance this working period of 5 weeks, as one single working day of 300 hours, if the working day has 10 hours and the working week 6 days. We must further multiply this number with the number of laborers who are employed every day simultaneously in the same labor-process. If there were 10 laborers, there would be 60 times 10, or 600 working hours in one week, and a working period of 5 weeks would have 600 times 5, or 3000 working hours. Variable capitals of equal magnitude are, therefore, employed, the rate of surplus-value and the working days being the same if equal quantities of labor-power are set in motion in the same time (a labor-power of the same price multiplied with the same number).

II.XVI.21

Let us now return to our original illustrations. In both cases, A and B, equal variable capitals, of 100 p. st. per week, are invested every week during the year. The invested variable capitals actually serving in the labor-process are, therefore, equal, but the advanced variable capitals are very unequal. For A, 500 p. st. are advanced for every 5 weeks, and 100 p. st. of this are consumed every week. In the case of B, 5000 p. st. must be advanced for first period of 5 weeks, but only 100 p. st. per week, or 500 in 5 weeks, or one-tenth of the advanced capital is employed. In the second period of 5 weeks, 4500

p. st. must be advanced, but only 500 of this is employed, etc. The variable capital advanced for a certain period of time is converted into employed, actually serving and active, variable capital only to the extent that it actually steps into the period of time taken up by the labor-process, to the extent that it actually takes part in it In the intermediate time in which a certain portion of this capital is advanced, with a view to being employed at a later time, this portion is practically non-existing for the labor-process and has, therefore, no influence on the formation of either value or surplus-value. Take, for instance, capital A, of 500 p. st. It is advanced for 5 weeks, but only 100 p. st. enter successively week after week into the labor process. In the first week, one-fifth of this capital is employed; four-fifths are advanced without being employed, although they must be available, and therefore advanced, for the labor-processes of the following 4 weeks.
II.XVI.22

The circumstances which differentiate the relations of the advanced to the employed capital, influence the production of surplus-value‘the rate of surplus-value being given‘only to the extent that they differentiate the quantity of variable capital which can be actually employed in a certain period of time, for instance in one week, 5 weeks, etc. The advanced variable capital serves as variable capital only for the time that it is actually employed, not for the time in which it is held available without being employed. But all the circumstances which

differentiate the relations between the advanced and the employed variable capital, are comprised in the difference of the periods of turn-over (determined by the difference in the working period, the circulation period or both). The law of the production of surplus-value decrees that equal quantities of employed variable capital produce equal quantities of surplus-value, if the rate of surplus-value is the same. If, then, equal quantities of variable capitals are employed by the capitals A and B in equal periods of time with an equal rate of surplus-value, they must produce equal quantities of surplus-value in equal periods of time, no matter what may be the proportion of this variable capital, employed during definite periods of time to the variable capital advanced for the same time and no matter, therefore, what may be the proportion of the quantities of surplus-value produced, not to the employed, but to the total advanced variable capital in general. The difference of this proportion, so far from contradicting the laws of the production of surplus-value demonstrated by us, rather corroborates them and is one of their inevitable consequences.
II.XVI.23

Let us consider the first productive section of 5 weeks of capital B. At the end of the fifth week, 500 p. st. have been employed and consumed. The value of the product is 100 p. st., hence the rate as 500 s to 500 v or 1100%, the same as in the case of capital A. The fact that, in the case of capital A, the surplus-value is realized

together with the advanced capital, while in the case of B it is not, does not concern us here, where it is merely a question of the production of surplus-value and of its proportion to the variable capital advanced during its production. But if we calculate the proportion of surplus-value in B, not as compared to that portion of the advanced capital of 5000 p. st. which has been employed and consumed in its production, but to this total advanced capital itself, we find that it is as 500 s to 5000 v, or as 1 to 10, or 10%. In other words, it is 10% for capital B and 100% for capital A, ten times more. If any one were to say that this difference in the rate of surplus-value for equal capitals, setting in motion equal quantities of labor which is equally divided into paid and unpaid labor, is contrary to the laws of the production of surplus-value, then the answer would be simple and prompted by the mere inspection of the actual conditions: In the case of A, the actual rate of surplus-value is expressed, that is to say, the proportion of a surplus-value of 500 p. st., to a variable capital of 500 p. st., which produced it in 5 weeks. In the case of B, on the other hand, we are dealing with a calculation which has nothing to do either with the production of surplus-value, or with the determination of its corresponding rate of surplus-value. For the 500 p. st., of surplus-value produced by a variable capital of 500 p. st. are not calculated with reference to the 500 p. st. of variable capital advanced in their production, but with reference to a capital of 5000 p. st., nine-tenths of which, or 4500 p. st., have nothing whatever to do with the production of this surplus-value of 500 p. st., but are rather

intended for gradual service in the following 45 weeks, so that they do not exist at all so far as the production of the first 5 weeks is concerned, which is alone significant in this instance. Under these circumstances, the difference in the rate of surplus-value of A and B is no problem at all.

II.XVI.24

Let us now compare the annual rates of surplus-value for capitals A and B. For B it is as 5000 s to 5000 v, or 100%; for A it is as 5000 s to 500 v, or 1000%. But the proportion of the rates of surplus-value toward one another is the same as before. There we had

(Rate of Surplus-Value of Capital B)/(Rate of Surplus-Value of Capital A) = 10%/100%.

II.XVI.25

Now we have

(Annual Rate of Surplus-Value of Capital B)/(Annual Rate of Surplus-Value of Capital A) = 100%/1000%

II.XVI.26

But 10% is to 100% as 100% is to 1000%, so that the ratio is the same.
II.XVI.27

But now the problem is reversed. The annual rate of capital B is as 5000 s to 5000 v, or 100%, offering not the slightest deviation, nor even the semblance of a deviation, from the laws of production known to us and the rate of surplus-value corresponding to this production. 5000 v have been advanced and consumed productively during the year, and they have produced 5000 s. The rate of surplus-value is, therefore the same as shown in the above proportion, 5000 s to 5000 v, or 100%. The annual rate agrees with the actual rate of surplus-value. In this case, it is not capital B, but capital A, which presents an anomaly that is to be explained.
II.XVI.28

In the case of A, we have the rate of surplus-value as 5000 s to 500 v, or 1000%. But while in the case of B, a surplus-value of 500 p. st., the product of 5 weeks, was calculated with reference to an advanced capital of 5000 p. st., nine-tenths of which were not employed in its production, we have now a surplus-value of 5000 s calculated on a variable capital of 500 v, that is to say, on only one-tenth of the variable capital of 5000 p. st. actually employed in the production of 5000 s. For the 5000 s are the product of a variable capital of 5000 v, productively consumed during 50 weeks, not that of

a capital of 500 p. st. productively consumed in one working period of 5 weeks. In the former case, the surplus-value produced in 5 weeks had been calculated for a capital advanced for 50 weeks, a capital ten times larger than the one consumed during the 5 weeks. In the present case, the surplus-value produced in 50 weeks is calculated for a capital advanced for only 5 weeks, a capital ten times smaller than the one consumed in 50 weeks.
II.XVI.29

Capital A, of 500 p. st., is never advanced for more than 5 weeks. At the end of this time it has flown back and may repeat the same process in the course of the year ten times, by ten turn-overs. Two conclusions follow from this:
II.XVI.30

First. The Capital advanced in the case of A is only five times larger than that portion of capital which is continually employed in the productive process of one week. Capital B, on the other hand, which is turned over only once in 50 weeks, is fifty times larger than that one of its portions which can be used only in continuous successions of one week. The turn-over, therefore, modifies the relations of the capital advanced during the year for the process of production to the capital employed continuously for a certain period of production, say, for one week. And this is illustrated by the first case, in which the surplus-value of 5 weeks is not calculated for the capital employed

during these 5 weeks, but for a capital ten times larger and employed for 50 weeks.
II.XVI.31

Second. The period of turn-over of 5 weeks of capital A comprises only one-tenth of the year, so that one year contains ten such periods of turn-over, in which capital A of 500 p. st. is successively reinvested. The employed capital is here equal to the capital advanced for 5 weeks, multiplied by the number of periods of turn-over per year. The capital employed during the year is 500 times 10, or 5000 p. st. The capital advanced during the year is 5000 divided by 10, or 500 p. st. Indeed, although the 500 p. st. are always re-employed, the sum advanced for 5 weeks never exceeds these same 500 p. st. On the other hand, in the case of capital B, it is true that only 500 p. st. are employed for 5 weeks and advanced for these 5 weeks. But as the period of turn-over is in this case 50 weeks, the capital employed in one year is equal to the capital advanced for 50 weeks, not to that advanced for every 5 weeks. But the annual quantity of surplus-value depends, given the rate of surplus-value, on the capital employed during the year, not on the capital advanced for the year. Hence it is not larger for this capital of 5000 p. st., which is turned over once a year, than it is for the capital of 500 p. st., which is turned over ten times per year. And it has this size only because the capital turned over once a year is ten times larger than the capital turned over ten times per year.

II.XVI.32

The variable capital turned over during one year‘and hence that portion of the annual product, or of the annual expenditure, which is equal to that portion‘is the variable capital employed and productively consumed during the year. It follows that, assuming the variable capital A turned over annually and the variable capital B turned over annually to be equal, and to be employed under equal conditions of investment, so that the rate of surplus-value is the same for both of them, the quantity of surplus-value produced annually must likewise be the same for both of them. Hence the annual rate of surplus-value must also be the same for them so far as it is expressed by the formula

(Quantity of Surplus-Value Produced Annually)/(Variable Capital Turned-Over Annually.)

II.XVI.33

Or, generally speaking: Whatever may be the relative magnitude of the turned over variable capitals, the rate of the surplus-value produced by them in the course of the year is determined by the rate of surplus-value at which the respective capitals have been employed in average periods (for instance the average of a week or a day).
II.XVI.34

This is the only result following from the laws of the production of surplus-value and the determination of the rate of surplus-value.
II.XVI.35

Let us now consider what is expressed by the ratio of the

(Capital Turned-Over Annually)/(Capital Advanced)

taking into account, as we have said before, only the variable capital. The division shows the number of turn-overs made by the capital advanced in one year.
II.XVI.36

In the case of capital A, we have:

(5000 p. st. of Capital Turned-Over Annually)/(500 p. st. of Capital Advanced)

II.XVI.37

In the case of capital B, we have:

(5000 p. st. of Capital Turned Over Annually)/(5000 p. st. of Capital Advanced)

II.XVI.38

In both ratios, the numerator expresses the capital advanced multiplied by the number of turn-overs, in the case of A, 500 times 10, in the case of B 5000 times 1. Or, it may be multiplied by the inverted time of turn-over calculated for one year. The time of turn-over for A is 1-10 year; the inverted time of turn-over is 10-1 year, hence we have 500 times 10-1, or 5000. In the case of B, 5000 times 1-1. The denominator expresses the turned over capital multiplied by the inverted number of turn-overs; in the case of A, 5000 times 1-10, in the case of B, 5000 times 1-1.

II.XVI.39

The respective quantities of labor (the sum of the paid and unpaid labor), which is set in motion by the two variable capitals turned over annually, are equal in this case, because the turned-over capitals themselves are equal and their rate of self-expansion is likewise equal.

II.XVI.40

The ratio of the variable capital turned over annually to the variable capital advanced indicates (1) the ratio of the capital intended for investment to the variable capital employed during a definite working period. If the number of turn-overs is 10, as in the case of A, and the year is assumed to have 50 working weeks, then the period of

turn-over is 5 weeks. For these 5 weeks, variable capital must be advanced, and the capital advanced for 5 weeks must be 5 times as large as the variable capital employed during one week. That is to say, only one-fifth of the advanced capital (in this case of 500 p. st.) can be employed in the course of one week. On the other hand, in the case of capital B, where the number of turn-overs is 1-1, the time of turn-over is 1 year of 50 weeks. The ratio of the advanced capital to the capital employed weekly is, therefore, as 50 to 1. If matters were the same for B as they are for A, then B would have to invest 1000 p. st. per week instead of 100. (2). It follows, that B has employed ten times as much capital (5000 p. st.) as A, in order to set in motion the same quantity of variable capital and, the rate of surplus-value being the same, of labor (paid and unpaid), and thus to produce the same quantity of surplus-value during one year. The current rate of surplus-value expresses nothing but the ratio of the variable capital employed during a certain period to the surplus-value produced in the same time; or, the quantity of unpaid labor set in motion by the variable capital employed during this time. It has absolutely nothing to do with that portion of the variable capital which is advanced for a time in which it is not employed. Hence it has nothing to do, in the case of different capitals, with the ratio, determined and differentiated by the period of turn-over, of that portion of capital which is advanced for a definite time and that portion which is employed in the same time.
II.XVI.41

The essential result of the preceding analysis is that the annual rate of surplus-value coincides only in one single case with the current rate of surplus-value which expresses the intensity of exploitation, namely in the case that the advanced capital is turned over only once a year, so that the capital advanced is equal to the capital turned over in the course of the year, so that the ratio of the quantity of surplus-value produced during the year to the capital employed during the year in this production coincides with and is identical with the ratio of the quantity of surplus-value produced during the year to the capital advanced during the year.

(A) The annual rate of surplus-value is equal to

(the Quantity of Surplus-Value Produced during the Year)/ (Variable Capital Advanced)

But the quantity of the surplus-value produced during the year is equal to the current rate of surplus-value multiplied by the variable capital employed in its production. The capital employed in the production of the annual quantity of surplus-value is equal to the advanced capital multiplied by the number of its turn-overs, which we shall call n in the present case. Substituting these terms in formula (A) we obtain:

(B) The annual rate of surplus-value is equal to the

(Cur. Rate of Surpl.Val. mltpl.b. the Var.Cap. Adv. mltpl. b n)/ (Var. Cap. Adv.)

II.XVI.42

For instance, in the case of capital B, we should have

(100 times 5000 times 1)/ 5000, or 100%.

II.XVI.43

Only when n is equal to 1, that is to say when the variable capital advanced is turned over once a year, so that it is equal to the capital employed or turned over, the annual rate of surplus-value is equal to the current rate of surplus-value.

II.XVI.44

Let us call the annual rate of surplus-value S', the current rate of surplus-value s', the advanced variable capital v, the number of turn-overs n. Then

S' is equal to s'vn/ v, or s'n.

In other words, S' is equal to s'n, and it is equal to s' only when n is 1, so that then S' is s' times 1, or s'.

II.XVI.45

It follows furthermore that the annual rate of surplus-value is always equal to s'n, that is to say, always equal to the current rate of surplus-value produced in one period of turn-over by the variable capital consumed during that period multiplied by the number of turn-overs of this variable capital during one year, or, what amounts to the same, multiplied with its inverted time of turn-over calculated for one year. (If the variable capital is turned over ten times per year, then its time of turn-over is 1-10 year, its inverted time of turn-over therefore 10-1 year, or 10 years.)

II.XVI.46

We have seen that S' is equal to s', when n is 1. S' is greater than s', when n is greater than 1, that is to say, when the advanced capital is turned over more than once a year, or the turned-over capital is greater than the capital advanced.

II.XVI.47

Finally, S' is smaller than s', when n is smaller than 1, that is to say, when the capital turned over during one year is only a part of the advanced capital, so that the period of turn-over is longer than one year.

II.XVI.48

Let us linger a moment over this last case.
II.XVI.49

We retain all the premises of our former illustration, only the period of turn-over is to be 55 weeks instead of 50 weeks. The labor-process requires a variable capital of 100 p. st. per week, so that 5500 p. st. are needed for the period of turn-over, and every week 100 s is produced, s' is, therefore, smaller than 100%. Indeed, if the annual rate turn-overs, n, is then 50/55 or 10/11, because the time of turn-over is 1 plus 1-10 year (of 50 weeks), or 11-10 year.
II.XVI.50

S' is equal to

(100% times 5500 times 10-11)/5500

II.XVI.51

equal to 100 times 10-11, or 1000-11, or 90 10-11%. It is, therefore, smaller than 100%. Indeed, if the annual rate of surplus-value were 100%, then 5500 v would have to produce 5500 s, while 11-10 years are required for that. The 5500 v produce only 5000 s during one year, therefore the annual rate of surplus-value is (5000 s)/(5500 v), or 10-11, or 90 10-11%.
II.XVI.52

The annual rate of surplus-value, or the comparison between the surplus-value produced during one year and the variable capital advanced (as distinguished from the variable capital turned over during one year), is therefore not merely a subjective matter, but the actual movement of capital causes this juxtaposition. So far as the owner of capital A is concerned, his advanced variable capital of 500 has returned to him at the end of the year, and it has produced 5000 p. st. of surplus-value in addition. It is not the quantity of capital employed by him during the year, but the quantity returning to him periodically, that expresses the magnitude of his advanced capital. It is immaterial for the present question, whether the capital exists at the end of the year partly in the form of a productive supply, or partly in that of money or commodity-capital, and what may be the proportions of these different parts. On the other hand, so far as the owner of capital B is concerned, his advanced capital of 5000 p. st. has returned to him, with an additional surplus-value of 5000 p. st. And as for the owner of capital C (the last mentioned 5500 p. st.), surplus-value to the amount of 5000 p. st. has been produced for him (advanced 5000 p. st., rate of surplus-value 100%), but his advanced capital has not yet returned to him nor has he pocketed his surplus-value.

II.XVI.53

The formula S' equal to s'n indicates that the rate of surplus-value in force for the employed variable capital, to wit,

(Quantity of S.-V. produced in one Period of T.-O.)/ (Var. Cap employed in one Period of T.-O.)

must be multiplied with the number of periods of turn-over, or of the periods of reproduction of the advanced variable capital, that number of periods in which it renews its cycle.
II.XVI.54

We have seen already in volume I, chapter IV (The Transformation of Money into Capital), and furthermore in volume I, chapter XXIII (Simple Reproduction), that the capital value is not all spent, but advanced, as this value, having passed through the various phases of its cycle, returns to its point of departure, enriched by surplus-value. This fact shows that it has been merely advanced. The time consumed from the moment of its departure to the moment of its return is the one for which it was advanced. The entire rotation of capital-value, measured by the time from its advance to its return, constitutes its turn-over, and the duration of this turn-over is a period of turn-over. When this period has elapsed and the cycle is completed, the same capital-value can renew the same rotation, can expand itself some more, create some more surplus-value. If the variable capital is turned over ten times in one year, as in the case of

capital A, then the same advance of capital creates in the course of one year, ten times the quantity of surplus-value created in one period of turn-over.
II.XVI.55

One must come to a clear conception of the nature of this advance from the standpoint of capitalist society.
II.XVI.56

Capital A, which is turned over ten times in one year, is advanced ten times during one year. It is advanced anew for every new period of turn-over. But at the same time, A never advances more than this same capital-value of 500 p. st., and disposes never of more than these 500 p. st. for the productive process considered by us. As soon as these 500 p. st. have completed one cycle, A starts them once more on the same cycle. In short, capital by its very nature preserves its character as capital only by means of continued service in successive processes of production. In the present case, it was never advanced for more than 5 weeks. If the turn-over lasts longer, this capital is inadequate. If the turn-over is contracted, a portion of this capital is released. Not ten capitals of 500 p. st. are advanced, but one capital of 500 p. st. is advanced ten times in successive intervals. The annual rate of surplus-value is, therefore, not calculated on ten advances of a capital of 500 p. st., not on 5000 p. st., but on one advance of a capital of 500 p. st. It is the same in the case of one

dollar which circulates ten times and yet represents never more than one single dollar in circulation, although it performs the function of 10 dollars. But in the hand, which holds it after each change of hands, it remains the same value of one dollar as before.
II.XVI.57

Just so the capital A indicates at each successive return, and likewise at its return at the end of the year that its owner has operated always with the same capital-value of 500 p. st. Hence only 500 p. st. flow back into his hand at each turn-over. His advanced capital is never more than 500 p. st. Hence the advanced capital represents the denominator of the fraction which expresses the annual rate of surplus-value. We had for it the formula

S' equal to s'vn/ v, or s'n.

As the current rate of surplus-value, s', is equal to s/ v, equal to the quantity of surplus-value divided by the variable capital which produced it, we may substitute the value of s' in s'n, that is to say s/ v, in our formula, thus making it

S' equal to sn/ v.

II.XVI.58

But by its tenfold turn-over, and thus the tenfold renewal of its advance, the capital of 500 p. st. performs the function of a ten times larger capital, of a capital of 5000 p. st., just as 500 dollar coins, which circulate ten times per year, perform the same function as 1000 dollar coins which circulate once a year.

II. THE TURN-OVER OF THE INDIVIDUAL VARIABLE CAPITAL.

II.XVI.59

"Whatever the form of the process of production in a society, it must be a continuous process, must continue to go periodically through the same phases...When viewed, therefore, as a connected whole, and as flowing on with incessant renewal, every social process of production is, at the same time, a process of reproduction...As a periodic increment of the capital advanced, or periodic fruit of capital in process, surplus-value acquires the form of a revenue flowing out of capital." (Volume I, chapter XXIII, pages 619, 620.)

II.XVI.60

In the case of capital A, we have 10 periods of turn-over of 5 weeks each. In the first period of turn-over, 500 p. st. of variable capital are advanced, that is to say, 100 p. st. are converted into labor-power every week, so that 500 p. st., have been converted into labor power at the end of the first period of turn-over. These 500 p. st., originally

a part of the total capital advanced, have then ceased to be capital. They are paid out in wages. The laborers in their turn pay them out in the purchase of means of subsistence, consuming subsistence to the amount of 500 p. st. A quantity of commodities of that value is therefore annihilated (what the laborer may save up in money, etc., is not capital). This quantity of commodities has been consumed unproductively from the standpoint of the laborer, except in so far as it preserves his labor-power, an indispensable instrument of the capitalist. In the second place, these 500 p. st. have been converted, from the standpoint of the capitalist, into labor-power of the same value (or price). Labor-power is consumed by him productively in the labor-process. At the end of 5 weeks, a product valued at 1,000 p. st. has been created. Half of this, or 500 p. st., is the reproduced value of the variable capital paid out for wages. The other half, or 500 p. st., is newly produced surplus-value. But 5 weeks of labor-power, by the consumption of which a portion of a capital was transformed into variable capital, is likewise expended, consumed, although productively. The labor which was active yesterday is not the one which is active today. Its value, together with that of the surplus-value created by it, exists now as the value of a thing separate from labor-power, to wit, a product. But by converting the product into money, that portion of it, which is equal to the value of the variable capital advanced, may once more be transformed into labor-power and thus perform again the functions of variable capital. It is immaterial that the same laborers, that is to say, the same bearers of the labor-power may be

employed not only with the reproduced, but also with the reconverted capital-value in the form of money. It might be possible that the capitalist might hire different laborers for the second period of turn-over.

II.XVI.61

It is, therefore, a fact that a capital of 5,000, and not of 500 p. st., is paid out for labor-power in the ten periods of turn-over of 5 weeks each. The capital of 5,000 p. st. so advanced is consumed. It does not exist any more. On the other hand, labor-power to the value of 5,000, not of 500, p. st. is incorporated successively in the productive process and reproduces not only its own value of 5,000 p. st., but also a surplus value of 5,000 p. st. over and above its value. The variable capital of 500 p. st., which is advanced for the second period of turn-over, is not the identical capital of 500 p. st., which had been advanced for the first period of turn-over. This has been consumed, expended in labor-power. But it is replaced by new variable capital of 500 p. st., which was produced in the first period of turn-over in the form of commodities and reconverted into money. This new money-capital is, therefore, the money-form of the quantity of commodities newly produced in the first period of turn-over. The fact that an identical sum of 500 p. st. is again in the hands of the capitalist, apart from the surplus-value, a sum equal to the one which he had originally advanced, disguises the circumstance that he now operates with a newly produced capital. (As for the other constituents of value

of the commodity-capital, which replace the constant parts of capital, their value is not newly produced, but only the form is changed in which this value exists.) Let us take the third period of turn-over. Here it is evident that the capital of 500 p. st., advanced for a third time, is not an old, but a newly produced capital, for it is the money-form of the quantity of commodities produced in the second, not in the first, period of turn-over that is to say, of that portion of this quantity of commodities, whose value is equal to that of the advanced variable capital. The quantity of commodities produced in the first period of turn-over is sold. Its value, to the extent that it was equal to the variable portion of the value of the advanced capital, was transformed into the new labor-power of the second period of turn-over and produced a new quantity of commodities, which were sold in their turn and a portion of whose value constitutes the capital of 500 p. st. advanced for the third period of turn-over.
II.XVI.62

And so forth during the ten periods of turn-over. In the course of these, newly produced quantities of commodities are thrown upon the market every 5 weeks, in order to incorporate ever new labor-power in the progress of production. (The value of these commodities, to the extent that it replaces variable capital, is likewise newly produced, and does not merely appear so, as in the case of the constant circulating capital.)
II.XVI.63

That which is accomplished by the tenfold turn-over of the advanced variable capital of 500 p. st., is not that this capital can be productively consumed ten times, nor that a capital lasting for 5 weeks can be employed for 50 weeks. Ten times 500 p. st. of variable capital are rather employed in those 50 weeks, and the capital of 500 p. st. lasts only for 5 weeks at a time and must be replaced at the end of the 5 weeks by a newly produced capital of 500 p. st. This applies equally to capital A and B. But at this point, the difference begins.
II.XVI.64

At the end of the first period of 5 weeks, a variable capital of 500 p. st. has been advanced and expended by both capitalists A and B. Both B and A have transformed its value into labor-power and replaced it by that portion of the value of the new product created by this labor-power which is equal to the value of the advanced variable capital of 500 p. st. And for both B and A, the labor-power has not only reproduced the value of the expended variable capital of 500 p. st. by a new value of the same amount, but also added a surplus-value, which, according to our assumption, is of the same magnitude.
II.XVI.65

But in the case of B, the product which replaces the advanced variable capital and adds a surplus-value to it, is not in the form in

which it can serve once more as a productive, or a variable, capital. On the other hand, it is in such a form in the case of A. B, however, does not possess the variable capital consumed in the first 5 and every subsequent 5 weeks up to the end of the year, although it has been reproduced by newly created value with a superadded surplus-value, in the form in which it may once more perform the function of productive, or variable, capital. Its value is indeed replaced, or reproduced, by new value, but the form of its value (in this case the absolute form of value, its money-form) is not reproduced.
II.XVI.66

For the second period of 5 weeks (and so forth for every succeeding 5 weeks of the year), 500 p. st. must again be available, the same as for the first period. Making exception of the conditions of credit, 5,000 p. st. must, therefore, be available at the beginning of the year as a latent advanced capital, although they are expended only gradually for labor-power in the course of the year.
II.XVI.67

But in the case of A, the cycle, the turn-over of the advanced capital, being completed, the reproduced value is after the lapse of 5 weeks in the precise form in which it may set new labor-power in motion for another term of 5 weeks, in its original money-form.
II.XVI.68

Both A and B consume new labor-power in the second period of 5 weeks and expend a new capital of 500 p. st. for the payment of this labor-power. The means of subsistence of the laborer paid with the first 500 p. st. are gone, their value has in every case disappeared from the hands of the capitalist. With the second 500 p. st., new labor-power is bought, new means of subsistence withdrawn from the market. In short, it is a new capital of 500 p. st. which is expended, not the old. But in the case of A, this new capital of 500 p. st. is the money-form of the newly produced substitute for the value of the formerly expended 500 p. st.; while in the case of B, this substitute is in a form, in which it cannot serve as variable capital. It is there but not in the form of variable capital. For the continuation of the process of production for the next 5 weeks, an additional capital of 500 p. st. must, therefore, be available in the form of money, which is indispensable in this case, and must be advanced. Thus both A and B expend an equal amount of variable capital, pay for and consume an equal quantity of labor-power, during 50 weeks. Only, B must pay for it with an advanced capital equal to its total value of 5,000 p. st., while A pays for it successively by the ever renewed money-form of the substitute produced in every 5 weeks for the capital of 500 p. st. advanced for every 5 weeks. In no case more capital is advanced by A than is required for 5 weeks, that is to say, 500 p. st. These 500 p. st. last for the entire year. It is, therefore, evident that, the intensity of exploitation and the current rate of surplus-value being the same for the two capitals, the annual rates of A and B must hold an

inverse ratio to one another than the magnitudes of the variable money-capitals, which had to be advanced in order to set in motion the same quantity of labor-power during the year. The rate of A is as 5,000 s to 500 v, or 1,000%; that of B is as 5,000 s to 5,000 v, or 100%. But 500 v is to 5,000 v as 1 to 10, or as 100% to 1,000%. II.XVI.69

The difference is due to the difference of the periods of turnover, that is to say, to the period in which the substitute for the value of a certain variable capital employed for a certain time can renew its function of capital, can serve as a new capital. In the case of both B and A, the same reproduction of value of the variable capital employed during the same periods take place. There is also the same increment of surplus-value during the same periods. But in the case of B, while there is every 5 weeks a reproduction of the value of 500 p. st. and a surplus-value of 500 p. st., these values do not yet make a new capital, because they are not in the form of money. In the case of A, on the other hand, the value of the old capital is not only reproduced by a new value, but it is rehabilitated in its money-form, so that it may at once assume the functions of a new capital. II.XVI.70

So far as the mere production of surplus-value is concerned, the rapid or slow transformation of the substitute for the value advanced into money, and thus into the form in which the variable capital is

advanced, is an insignificant circumstance. This production depends on the magnitude of the employed variable capital and the intensity of exploitation. But the more or less rapid transformation referred to does modify the magnitude of the money-capital which must be advanced in order to set a definite quantity of labor-power in motion during the year, and therefore it determines the annual rate of surplus-value.

III. THE TURN-OVER OF THE VARIABLE CAPITAL, CONSIDERED FROM THE POINT OF VIEW OF SOCIETY.

II.XVI.71

Let us look for a moment at this matter from the point of view of society. Let the wages of one laborer be 1 p. st. per week, the working day 10 hours. Both A and B employ 100 laborers per week (100 p. st. for 100 laborers per week, or 500 p. st. for 5 weeks, or 5,000 p. st. for 50 weeks), and each one of them works 60 hours per week of 6 days. Then 100 laborers work 6,000 hours per week, and 300,000 hours in 50 weeks. This labor-power is engaged by A and B, and cannot be expended by society for anything else. To this extent, the matter is the same socially that it is in the case of A and B. Furthermore: Both A and B pay their respective 100 laborers 5,000 p. st. in wages per year (or together for 200 laborers 10,000 p. st.) and withdraw from society means of subsistence to that amount. So far,

the matter is socially likewise the same as in the case of A and B. Since the laborers in either case are paid by the week, they weekly withdraw their means of subsistence from society and throw in either case a weekly equivalent in money into the circulation. But here the difference begins.
II.XVI.72

First. The money, which the laborer of A throws into the circulation, is not only, as it is for the laborer of B, the money-form for the value of the labor-power (an actual payment for labor already performed); it is also, beginning with the second period of turn-over since the opening of the business, the money form of the value of his own product (price of labor-power plus surplus-value) created during the first period of turn-over, by which his labor during the second period of turn-over is paid. This is not the case with the laborer of B. The money is here indeed a medium of payment for labor already performed by the laborer, but this labor is not paid for with its own product turned into money (the money-form of the value produced by itself). This cannot be done until the beginning of the second year, when the laborer of B is paid with the money-form of the value of his product of the preceding year.
II.XVI.73

The shorter the period of turn-over of capital‘the shorter, therefore, the intervals in which the periods of reproduction are renewed‘the

quicker is the variable portion of the capital, advanced by the capitalist in the form of money, transformed into the money-form of the product (including surplus-value) created by the laborer in place of the variable capital; the shorter is the time for which the capitalist must advance money out of his own funds, the smaller is the capital advanced by him compared to the given scale of production; and the greater is the proportionate quantity of surplus-value which he realizes with a given rate of surplus-value during the year, because he can buy the laborer so much more frequently with the money-form of the product created by the labor of that laborer and set his labor into motion.
II.XVI.74

Given the scale of production, the absolute magnitude of the advanced variable capital (and of the circulating capital in general) decreases in proportion as the period of turn-over is shortened, and so does the annual rate of surplus-value increase. Given the magnitude of the advanced capital, and the rate of surplus-value, the scale of production and the absolute quantity of surplus-value created in one period of turnover increases simultaneously with the rise in the annual rate of surplus-value due to the contraction of the periods of reproduction. It follows in general from the preceding analysis that, according to the different length of the periods of turn-over, money-capital of considerably different quantity must be advanced, in order to set in motion the same quantity of productive circulating capital

and the same quantity of labor-power with the same intensity of exploitation.
II.XVI.75

Second. It is due to the first difference, that the laborers of B and A pay for the means of subsistence which they buy with the variable capital that has been transformed into a medium of circulation in their hands. For instance, they do not only withdraw wheat from the market, but also leave in its place an equivalent in money. But since the money, with which the laborer of B pays for his means of subsistence and draws them from the market is not the money-form of the value of a product which he has thrown on the market during the year, as it is in the case of the laborer of A, he supplies the seller of his means of subsistence only with money, but not with products‘be they materials of production or means of subsistence‘ which this seller might buy with the money received from the laborer, as he may in the case of the laborer of A. The market is therefore stripped of labor-power, means of subsistence for this labor-power, fixed capital, in the form of instruments of production used by B, and materials of production, and an equivalent in money is thrown on the market in their place, but no product is thrown on the market during the year by which the material elements of productive capital withdrawn from it might be replaced. If we assumed that society were not capitalistic, but communistic, then the money-capital would be entirely eliminated, and with it the disguises which it carries into the

transactions. The question is then simply reduced to the problem that society must calculate beforehand how much labor, means of production, and means of subsistence it can utilize without injury for such lines of activity as, for instance, the building of railroads, which do not furnish any means of production or subsistence, or any useful thing, for a long time, a year or more, while they require labor, and means of production and subsistence out of the annual social production. But in capitalist society, where social intelligence does not act until after the fact, great disturbances will and must occur under these circumstances. On one hand there is a pressure on the money-market, while on the other an easy money-market creates just such enterprises in mass, that bring about the very circumstances by which a pressure is later on exerted on the market. A pressure is exerted on the money-market, since an advance of money-capital for long terms is always required on a large scale. And this is so quite apart from the fact that industrials and merchants invest the money-capital needed for the carrying on of their business in railroad speculation, etc., and reimburse themselves by borrowing in the money-market. On the other hand, there is a pressure on the available productive capital of society. Since elements of productive capital are continually withdrawn from the market and only an equivalent in money is thrown on the market in their place, the demand of cash payers for products increases without supplying any elements for purchase. Hence a rise in prices, of means of production and of subsistence. To make matters worse, swindling operations are always carried on at this time,

involving a transfer of great capitals. A band of speculators, contractors, engineers, lawyers, etc., enrich themselves. They create a strong demand for consumption on the market, wages rising at the same time. So far as means of subsistence are concerned, it is true that agriculture is thus stimulated. But as these means of subsistence cannot be suddenly increased within the year, their importation increases, as does the importation of exotic food stuffs, such as coffee, sugar, wine, and articles of luxury. Hence we then have a surplus importation and speculation in this line of imports. Furthermore, in those lines of business in which production may be rapidly increased, such as manufacture proper, mining, etc., the rise in prices causes a sudden expansion, which is soon followed by a collapse. The same effect is produced on the labor-market, where large numbers of the latent relative over-population, and even of the employed laborers, are attracted toward the new lines of business. In general, such enterprises on a large scale as railroad building withdraw a certain quantity of labor-powers from the labor-market, which can come only from such lines of business as agriculture, etc., where strong men are needed. This still continues even after the new enterprises have become established lines of business and the wandering class of laborers needed for them has already been formed. A case in point is the temporary increase in the scale of business of railroads beyond the normal. A portion of the reserve army of laborers who kept wages down is absorbed. Wages rise everywhere, even in the hitherto engaged parts of the labor-market. This lasts until the

inevitable crash throws the reserve army of labor out of work, and wages are once more depressed to their minimum or below it.*33
II.XVI.76

To the extent that the greater or smaller length of the period of turn-over depends on the working period, strictly so called, that is to say on the period which is required to get the product ready for the market, it rests on the existing material conditions of production of the various investments of capital. In agriculture, they partake more of the character of natural conditions of production, in manufacture and the greater part of the extractive industry they vary with the social development of the process of production itself.
II.XVI.77

Furthermore, to the extent that the length of the working period is conditioned on the size of the orders (the quantitative volume in which the product is generally thrown upon the market), this point depends on conventions. But convention itself depends for its material basis on the scale of production, and it is accidental only when considered individually.
II.XVI.78

Finally, so far as the length of the period of turn-over depends on that of the period of circulation, the latter is, indeed, conditioned on the incessant change of market combinations, the greater or smaller

ease of selling, and the resulting necessity to throw a part of the product to more or less remote markets. Apart from the volume of the general demand, the movement of prices plays here one of the main roles, since sales are intentionally restricted when prices are falling, while production proceeds; vice versa, production and sale keep step, when prices are rising, and sales may even be made in advance. But we must consider the actual distance of the place of production from the market as the real material basis.
II.XVI.79

For instance, English cotton goods or yarn are sold to India. The export merchant may pay the English cotton manufacturer. (The export merchant does so willingly only when the money-market stands well. If the manufacturer replaces his money-capital by operating credit on his own part, matters are already in a bad state). The exporter sells his cotton goods later in the Indian market, whence his advanced capital is returned to him. Until the time of this return the case is identical with the one in which the length of the working period necessitates the advance of new money-capital, in order to maintain the process of production on a certain scale. The money-capital with which the manufacturer pays his laborers and renews the other elements of his circulating capital, is not the money-form of the yarn produced by him. This cannot be the case until the value of this yarn has returned to England in the form of money or products. It is additional capital as before. The difference is only that it is advanced

by the merchant instead of the manufacturer, and that it reaches the merchant by means of manipulations of credit. Furthermore, before this money is thrown on the market, or simultaneously with it, no additional product has been thrown on the English market, to be bought with this money and to be consumed productively or individually. If this condition occurs for a long period on a large scale, it must cause the same effects as a prolongation of the working period, previously mentioned.
II.XVI.80

Now it may be that the yarn is sold even in India on credit. With this credit, products are bought in India and sent back to England, or drafts are remitted to this amount. If this condition is prolonged, there is a pressure on the Indian money-market, and its reaction may cause a crisis in England. This crisis, even if combined with an export of precious metals to India, causes a new crisis in that country on account of the bankruptcy of English business houses and their Indian branch houses, who had received credit from the Indian banks. Thus a crisis occurs simultaneously on the market which is credited with the balance of trade and on the one which is charged with it. This phenomenon may be still more complicated. Take it, for instance that England has sent silver ingots to India, but the English creditors of India now collect their debts in that country, and India will soon after have reshipped its silver ingots to England.
II.XVI.81

It is possible that the export trade to India and the import trade from India might approximately balance one another, although the imports (with the exception of peculiar circumstances, such as arise in the price of cotton), will be determined as to their volume and stimulated by the export trade. The balance of trade between England and India may seem to be squared, or may show but slight fluctuations on either side. But as soon as the crisis appears in England it is seen that unsold cotton goods are stored in India (and have not been transformed from commodity capital into money-capital‘an overproduction to this extent), and that, on the other hand, there are in England not only unsold supplies of Indian goods, but that a considerable portion of the sold and consumed goods is not yet paid for. Hence, that which appears as a crisis on the money-market, is in reality an expression of abnormal conditions in the process of production and reproduction.
II.XVI.82

Third. So far as the employed circulating capital (constant and variable) is concerned, the length of the period of turn-over, to the extent that it is due to the working period, makes this difference: In the case of several turn-overs during one year, an element of the variable or constant circulating capital may be supplied by its own product, for instance in the production of coal, the tailoring business,

etc. Otherwise, this cannot take place, at least not within the same year.

Notes for this chapter

33.
In the manuscript, the following note is here inserted for future elaboration: "Contradiction in the capitalist mode of production; the laborers as buyers of commodities are important for the market. But as sellers of their own commodity‘labor-power‘capitalist society tends to depress them to the lowest price. Further contradiction: The epochs in which capitalist production exerts all its forces are always periods of overproduction, because the forces of production can never be utilized to such a degree that more value is not only produced but also realized; but the sale of commodities, the realization on the commodity-capital, and thus on surplus-value, is limited, not by the consumptive demand of society in general, but by the consumptive demand of a society in which the majority are poor and must always remain poor. However, this belongs into the next part."

Part II,

Volume II Chapter XVII THE CIRCULATION OF SURPLUS-VALUE.

II.XVII.1

We have just seen that a difference in the period of turn-over causes a difference in the annual rate of surplus-value, even if the quantity of the annually produced surplus-value is the same.
II.XVII.2

But there is furthermore necessarily a difference in the capitalization of surplus-value, the accumulation, and to that extent also in the quantity of surplus-value produced during the year, while the rate of surplus-value remains the same.
II.XVII.3

To begin with, we remark that capital A (in the illustration of the preceding chapter) has a current periodical revenue, so that with the exception of the period of turn-over beginning the business, it pays for its own consumption within the year out of its production of surplus-value, and need not cover it by advances out of its own funds. But B has to do this. While he produces as much surplus-value in the same time as A, he does not realize on it and cannot consume it either productively or individually. So far as individual consumption is concerned, the surplus-value is discounted in advance. Funds for that purpose must be advanced.
II.XVII.4

One portion of the productive capital, which is difficult to classify, namely the additional capital required for the repair and maintenance of the fixed capital, is now likewise seen in a new light.
II.XVII.5

In the case of A, this portion of capital‘in full or for the greater part‘ is not advanced at the beginning of production. It need not be available, or even in existence. It comes out of the business itself by a direct transformation of surplus-value into capital by its direct employment as capital. One portion of the surplus-value which is not only periodically produced but also realized may cover the expenditures required for repairs, etc. A portion of the capital needed for carrying on the business on its original scale is thus produced in the course of business by the business itself by means of capitalization of a portion of surplus-value. This is impossible for the capitalist B. This portion of capital must in his case form a part of the capital originally advanced. In both cases this portion will figure in the books of the capitalists as an advanced capital, which it really is, since according to our assumption it is a part of the productive capital required for maintaining the business on a certain scale. But it makes a great difference out of which funds it is advanced. In the case of B, it is actually a part of the capital to be originally advanced or held available. On the other hand, in the case of A, it is a part of the surplus-value, if used as capital. This last case shows that not only

the accumulated capital, but also a portion of the originally advanced capital, may be capitalized surplus-value.
II.XVII.6

As soon as the development of credit interferes, the relation between originally advanced capital and capitalized surplus-value is still more complicated. For instance, A borrows a portion of the productive capital, with which he starts his business and continues it during the year, from banker C, not having sufficient capital of his own for this purpose. Banker C lends him the required sum, which consists only of surplus-value deposited with the banker by capitalists D; E, F, etc. From the standpoint of A, there is as yet no question of any accumulated surplus-value. But from the point of view of D, E, F, etc., A is merely their agent capitalizing surplus-value appropriated by them.
II.XVII.7

We have seen in volume I, chapter XXIV, that accumulation, the conversion of surplus-value into capital, is substantially a process of reproduction on an enlarged scale, no matter whether this expansion is expressed extensively in the form of an addition of new factories to the old ones, or intensively by the expansion of the existing scale of production.
II.XVII.8

The expansion of the scale of production may proceed in small portions, a part of the surplus-value being used for improvements which either increase simply the productive power of the labor employed, or permit at the same time of its more intensive exploitation. Or, in places where the working day is not legally restricted, an additional expenditure of circulating capital (in materials of production and wages) suffices to expand production without an extension of the fixed capital, whose daily time of employment is thus merely lengthened, while its period of turn-over is correspondingly abbreviated. Or, capitalized surplus-value may, under favorable market combinations, permit of speculation in raw materials, an operation for which the capital originally advanced would not have been sufficient, etc.

II.XVII.9

However, it is evident that in cases, where the greater number of the periods of turn-over carries with it a more frequent realization of surplus-value within the year, there will be periods, in which there can be neither a prolongation of the working day, nor an introduction of improvements in details, while, on the other hand, there is only a limited scope in which it is possible to expand the entire business on a proportional scale, partly, by a reorganization of the entire plan of business, buildings, etc., partly by an expansion of the funds for labor, as in agriculture, and a volume of additional capital is required, such

as can be supplied only by several years of accumulation of surplus-value.
II.XVII.10

Along with the actual accumulation, or conversion of surplus-value into productive capital, (and a corresponding reproduction on an enlarged scale), there is, then, an accumulation of money, a hoarding of a portion of the surplus-value in the form of latent money-capital, which is not intended for service as additional productive capital until later.
II.XVII.11

This is the aspect of the matter from the point of view of the individual capitalist. But simultaneously with the development of capitalist production, the credit system also develops. The money-capital, which the capitalist cannot as yet employ in his own business, is employed by others, who pay him an interest for its use. It serves for him as money-capital in its specific meaning, that is to say as a kind of capital distinguished from productive. But it serves as capital in another's hands. It is plain, that, with the more frequent realization of surplus-value and the rising scale on which it is produced, there must also be an increase in the proportion of new money-capital, or money in the form of capital, thrown upon the money-market and withdrawn from it for the purpose of expanding production.
II.XVII.12

The simplest form, in which the additional latent money-capital may be represented, is that of a hoard. It may be that this hoard is additional money or silver, secured directly or indirectly in exchange with countries producing precious metals. And only in this manner does the hoarded money in a country grow absolutely. On the other hand, it may be‘and is so in the majority of cases‘that this hoard is nothing but money withdrawn from inland circulation and has assumed the form of a hoard in the hands of individual capitalists. It is furthermore possible that this latent money-capital consists only of tokens of value‘we ignore credit money at this point‘or of mere claims (titles) on third persons conferred by legal documents. In all such cases, whatever may be the form of this additional money-capital, it represents, so far as it is prospective capital, nothing but additional and reserved legal titles of capitalists on future additional products of society.

"The mass of the actually accumulated wealth, considered as to magnitude,...is absolutely insignificant compared to the productive forces of society to which it belongs, whatever may be its stage of civilization; or even compared to the actual consumption of this same society in the course of but a few years; so insignificant, that the attention of the legislators and political economists should be mainly directed to the forces of production and their free development in the future, not, as heretofore, to the mere accumulated wealth which strikes the eye. By far the greater part of the so-called accumulated

wealth is only nominal and does not consist of actual objects, such as ships, houses, cotton goods, real estate improvements, but of mere legal titles, claims on the future annual productive forces of society titles generated and perpetuated by the devices or institutions of insecurity...The use of such articles (accumulations of physical things, or actual wealth) as a mere means of appropriating for their owners a wealth which the future productive forces of society are as yet to create, this use would be gradually withdrawn from them without any force by the natural laws of distribution; with the assistance of co-operative labor, it would be withdrawn from them within a few years." (William Thompson, Inquiry into the Principles of the Distribution of Wealth, London, 1850, page 453. This book appeared for the first time in 1827.)

"It is little understood, nor even suspected by most people, what an utterly insignificant portion, whether it be in quantity or effectiveness, the actual accumulations of society constitute of the human productive forces, yea, even of the ordinary consumption of a single generation of men during a few years. The reason for this is obvious, but the effect is very injurious. The wealth which is consumed annually, disappears as it is being used; it stands before the eye only for a moment, and makes an impression only while it is enjoyed or consumed. But the slowly consumable portion of wealth, furniture, machines, buildings, from our childhood to our age they are standing before our eyes, lasting monuments of human exertion. By

virtue of the ownership of this fixed, lasting, slowly consumed portion of public wealth‘of the soil and the raw materials on which, the instruments with which, work is done, the houses which give shelter while the work is being done‘by virtue of this ownership the owners of these objects control for their own advantage the annual productive forces of all really productive laborers of society, insignificant as those objects may be in proportion to the ever recurring products of this labor. The population of Great Britain and Ireland is 20 millions; the average consumption of every man, woman, and child is about 20 p. st., making a total wealth of 400 million p. st., the product of labor annually consumed. The total amount of the accumulated capital of those countries does not exceed, according to estimates, 1,200 million p. st., or thrice the annual product of labor; if equally divided, 60 p. st. of capital per capita. We have here to deal more with the proportion than with the more or less inaccurate absolute amounts of these estimated sums. The interest on this total capital would suffice to maintain the total population in its present style of living for about two months of one year, and the entire accumulated capital (if buyers could be found for it) would maintain them without labor for a whole three years! At the end of which time, without houses, clothing, and food, they would have to starve, or become the slaves of those who have maintained them during these three years. As three years are to the life time of one healthy generation, say to 40 years, so the magnitude and importance of the actual wealth, the accumulated capital of even the richest country, is to its productive forces, to the

productive forces of a single human generation; not to what they might really produce under intelligent institutions of equal security, and especially with co-operative labor, but to what they are actually producing under the imperfect and discouraging makeshifts of insecurity.... And in order to maintain this apparently tremendous mass of existing capital, or rather the control and monopoly of the annual product of labor in its present condition of compulsory division this entire machinery the vices, the crimes, the sufferings of insecurity, are to be perpetuated. Nothing can be accumulated, unless the necessary wants are first satisfied, and the great current of human desires flows after enjoyment; hence the comparatively insignificant amount of actual wealth of society at any given moment. It is an eternal circulation of production and consumption. In this immense mass of annual production and consumption, the handful of actual accumulation would hardly be missed, and yet attention has been mainly directed, not to that mass of productive forces, but to this handful of accumulation. But this handful has been appropriated by a few, and transformed into an instrument for the appropriation of the ever recurring annual products of the labor of the great masses. Hence the vital importance of such an instrument for these few.... About one-third of the annual national product is now taken from the producers under the name of public taxes, and unproductively consumed by people that do not give any equivalent for it, that is to say, none that is accepted as such by the producer.... The eye of the crowd looks with astonishment upon the accumulated masses, especially when they

are concentrated in the hands of a few. But the annually produced masses, like the eternal and innumerable waves af a mighty stream, roll by and are lost in the forgotten ocean of consumption. And yet this eternal consumption determines not alone all enjoyments, but the very existence of the human race. The quantity and distribution of this annual product should above all be made the object of study. The actual accumulation is of secondary importance, and receives even this importance almost exclusively by its influence on the distribution of the annual product...The actual accumulation and distribution is here (in Thompson's work) always considered in reference and subordination to the productive forces. In almost all other systems, the productive forces have been considered with reference and in subordination to accumulation and to the perpetuation of existing mode of distribution. Compared with the conservation of this existing mode of distribution, the ever recurring suffering or welfare of the entire human race is not considered worthy of a glance. To perpetuate the results of force, of fraud, and of accident, this has been called security, and for conservation of this lying security, all the forces of production of the human race have been mercilessly sacrificed." (Ibidem, pages, 440-443.)

II.XVII.13

For the reproduction, only two normal cases are possible, apart from disturbances, which interfere with reproduction even on a given scale.

II.XVII.14

There is either reproduction on a simple scale.
II.XVII.15

Or, there is a capitalization of a surplus-value, accumulation.

I. SIMPLE REPRODUCTION.

II.XVII.16

In the case of simple reproduction, the surplus-value produced or realized annually, or by several turn-overs during the year, is consumed individually, that is to say unproductively, by its owner, the capitalist.
II.XVII.17

The fact that the value of the product consists in part of surplus-value, in part of that portion of value which is formed by the variable capital reproduced through it plus the constant capital consumed by it, does not alter anything, either in the quantity, or in the value of the total product, which continually passes into circulation and is just as continually withdrawn from it, in order to pass into productive or individual consumption, that is to say, to serve as means of production or consumption. Making exception of the constant capital,

only the distribution of the annual product between the laborers and the capitalists is thereby affected.
II.XVII.18

Even if simple reproduction is assumed, a portion of the surplus-value must, therefore, always exist in the form of money, not of products, because it could otherwise not be converted for purposes of consumption from money into products. This conversion of the surplus-value from its original commodity-form into money must be further analyzed at this place. In order to simplify the matter, we assume the most elementary form of the problem, namely the exclusive circulation of metal coin, of money which is a real equivalent.
II.XVII.19

According to the laws of the simple circulation of commodities (developed in volume I, chapter III), the mass of the metal coin existing in a country must not only be sufficient for the circulation of the commodities, but must also suffice for the fluctuations of the circulation of money, which arise partly from fluctuations in the velocity of the circulation, partly from a change in the prices of commodities, partly from the various and varying proportions in which the money serves as a medium of payment or as the typical medium of circulation. The proportion in which the existing quantity of money is divided into a hoard and money in circulation, varies continually, but

the quantity of money is always equal to the sum of the money hoarded and the money circulating. This quantity of money (quantity of precious metal) is a gradually accumulated hoard of society. To the extent that a portion of this hoard is consumed by wear, it must be replaced annually, the same as any other product. This takes place in reality by a direct or indirect exchange of a part of the annual product of a country for the product of countries producing gold and silver. However, this international character of the transaction disguises its simple course. In order to reduce the problem to its simplest and most transparent expression, it must be assumed that the production of gold and silver takes place in the same country in which the other products are created, so that the production of gold and silver constitutes a part of the total social production within every country. II.XVII.20

Apart from the gold and silver produced for articles of luxury, the medium of their annual production must be equal to the wear of metal coin annually occasioned by the circulation of money. Furthermore, if the value of the annually produced and circulating quantity of commodities increases, the annual production of gold and silver must likewise increase, unless the growth of the value of the circulating commodities and the quantity of money required for their circulation (and the corresponding formation of a hoard) is accompanied by a greater velocity in the circulation of money and a more extensive function of money as a medium of payment, that is to

say, by a greater mutual balancing of purchases and sales without the intervention of actual money.
II.XVII.21

A portion of the social labor power and a portion of the social means of production must, therefore, be expended annually in the production of gold and silver.
II.XVII.22

The capitalists, who are engaged in the production of gold and silver, and who, according to our assumption of simple reproduction, carry on their production only within the limits of the annual average wear and the resulting average consumption of gold and silver, throw their surplus-value, which they consume annually, according to our assumption, without capitalizing any of it, directly into circulation in the form of money, which is the natural form for them, not, as in the case of the other capitalists, the converted form of their product.
II.XVII.23

Furthermore, as concerns wages, the money form in which the variable capital is advanced, it is not replaced in this case by the sale of the product, by a conversion into money, but by a product whose natural form is from the outset that of money.
II.XVII.24

Finally, the same applies also to that portion of the product in precious metals which is equal to the value of the periodically consumed constant capital, both the constant circulating and the constant fixed capital consumed during the year.
II.XVII.25

Let us study the rotation, or the turn-over, of the capital invested in the production of precious metals first in the form of M‘C‘P‘M'. So far as the C in M‘C does not only consist of labor-power and materials of production, but also of fixed capital, only a part of whose value is consumed by P, it is evident that the product, M', is a sum of money equal to the variable capital invested in wages plus the circulating constant capital invested in materials of production plus a portion of the value of the fixed constant capital plus a surplus-value. If the sum were smaller, the general value of gold remaining the same, then the mine would be unproductive, or, if this is generally the case, the value of gold, compared with the value of commodities that remains unchanged, would rise; that is to say, the prices of commodities would fall, so that henceforth the amount of money invested in M‘C would be smaller.
II.XVII.26

If we consider at first only the circulating portion of capital advanced in M, the starting point of M‘C...P...M', we find that it is a certain sum of money advanced and thrown into circulation for the payment

of labor-power and the purchase of materials of production. But this sum is not withdrawn from circulation, by the rotation of this capital, in order to be thrown into it anew. The product is money even in its natural form, there is no need of transforming it into money by means of exchange, by a process of circulation. It passes from the process of production into the process of circulation, not in the form of commodity-capital which has to be converted into money-capital, but as a money-capital which is to be reconverted into productive capital, which is to be fresh labor-power and materials of production. The money-form of the circulating capital consumed in labor-power and materials of production is replaced, not by the sale of the product, but by the natural form of the product itself; not by once more withdrawing its value from circulation in the form of money, but by additional, newly produced money.
II.XVII.27

Let us assume that this circulating capital is 500 p. st., the period of turn-over is 5 weeks, the working period 4 weeks, the period of circulation only 1 week. From the outset, money must be partly advanced for a productive supply, partly available, for 5 weeks, in order to be paid out gradually for wages. At the beginning of the 6th week, 400 p. st. have flown back and 100 p. st. have been released. This is continually repeated. Here, as in previous cases, 100 p. st. will always find themselves released during a certain time of the turn-over. But they consist of additional, newly produced, money, the same as

the other 400 p. st. We have in this case 10 turn-overs per year and the annual product is 5,000 p. st. in gold. (The period of circulation does not arise, in this case, from the time required for the conversion of commodities into money, but for the conversion of money into the elements of production.)
II.XVII.28

In the case of every other capital of 500 p. st., turned over under the same conditions, it is the ever renewed money-form which is exchanged for the produced commodity capital and thrown into the circulation every 4 weeks and which resumes this form in every new interval by sale, that is to say, by a periodical withdrawal of the quantity of money which entered originally into the process. But here a new additional quantity of money to the amount of 500 p. st. is thrown into circulation by the process of production itself, in order to withdraw from it continually materials of production and labor-power. This money thrown into circulation is not withdrawn from it by the rotation of this capital, but rather continually increased by newly produced quantities of gold.
II.XVII.29

Let us look at the variable portion of this circulating capital, and assume that it is, as before, 100 p. st. Then these 100 p. st. would be sufficient in the ordinary production of commodities, with 10 turn-overs, to pay continually for the required labor-power. Here, in the

production of money, the same amount is likewise sufficient. But the 100 p. st. of the reflux, with which the labor-power is paid every 5 weeks are not a converted form of its product, but a portion of this ever renewed product itself. The producer of gold pays his laborers directly with a portion of the gold produced by them. Thus the 1,000 p. st. invested annually in labor-power and thrown by the laborers into the circulation do not return by the way of this circulation to their starting point.
II.XVII.30

Furthermore, so far as the fixed capital is concerned, it requires the investment of a large money-capital at the opening of the business, and this capital is thus thrown into the circulation. Like all fixed capital it flows back only piece by piece in the course of years. But it flows back as an immediate portion of the product, of the gold, not by the sale of the product and its consequent monetization. In other words, it receives gradually its money-form, not by a withdrawal of money from circulation, but by an accumulation of a corresponding portion of the product. The money-capital so replaced is not a quantity of money gradually withdrawn from circulation for a compensation of the sum originally thrown into it for fixed capital. It is an additional sum of new money.
II.XVII.31

Finally, as concerns the surplus-value, it is likewise equal to a certain portion of the new product of gold, which is thrown into circulation in every period of turn-over in order to be unproductively consumed according to our assumption, in means of subsistence and articles of luxury.
II.XVII.32

But according to our assumption, the entire annual production of gold‘ which continually withdraws labor-power and materials of production, but no money, from the market, while adding fresh quantities of money to it‘replaces only the money worn out during the year, keeps only the quantity of social money complete which exists continually, although it consists in varying portions of the two forms, hoarded money and money in circulation.
II.XVII.33

According to the law of the circulation of commodities, the quantity of money must be equal to the amount of money required for circulation plus a certain amount held in the form of a hoard, which increases or decreases according to the contraction or expansion of circulation and serves especially for the formation of the reserve funds required as means of payment. That which must be paid in gold‘to the extent that there is no balancing of accounts‘is the value of the commodities. The fact that a portion of these commodities represents a surplus value, that is to say, did not cost the seller anything, does not alter

the matter in any way. Take it that the producers are all independent owners of their means of production, so that circulation takes place between the immediate producers themselves. Apart from the constant portion of their capital, their annual surplus-product might then be divided into two parts, analogous with capitalist conditions: Part a, replacing the necessary means of subsistence, and part b, consumed partly for articles of luxury, partly for an expansion of production. Part a then plays the role of the variable capital, part b that of the surplus-value. But this division would remain without influence on the magnitude of the sum of money required for the circulation of the total product. Other circumstances remaining equal, the value of the circulating mass of commodities would be the same, and thus also the amount of money required for its circulation. The capitalists would also have to keep on hand the same money reserve, the division of the periods of turn-over remaining the same that is to say, the same portion of their capital would have to be held in the form of money, because their production, according to our assumption, would be a production of commodities, the same as before. Hence the fact that a portion of the value of the commodities consists of surplus-value, would change absolutely nothing in the quantity of the money required for the running of the business.
II.XVII.34

An opponent of Tooke, who clings to the formula M‘C‘M', asks him how the capitalist manages to always withdraw more money from

circulation than he threw into it. Mark well! It is not here a question of the formation of surplus-value. This, the only secret, is a matter of course from the capitalist standpoint. The quantity of value employed would not be capital, if it did not secure an increment of surplus-value. But as it is capital, according to our assumption, there must be surplus-value as a matter of course.
II.XVII.35

The question, then, is not‘where does the surplus-value come from? It is rather: Whence comes the money for which it is exchanged?
II.XVII.36

But in bourgeois political economy, the existence of surplus-value is self-understood. It is not only assumed, but also connected with the assumption that a portion of the commodities thrown into circulation is a surplus product, which was not thrown into circulation together with the capital of the capitalist. In other words, it is assumed by bourgeois political economists, that the capitalist throws a surplus over and above his capital into the circulation with his product, and that he recovers this surplus from it.
II.XVII.37

The commodity-capital, which the capitalist throws into the circulation, has a greater value than the productive capital which he withdrew from the circulation in the form of labor-power and means of

production (it is neither explained nor understood by the bourgeois economists where this greater value comes from, but it is considered by them as an accomplished fact). On the basis of this assumption it is evident by what means not only the capitalist A, but also B, C, D, etc., manage to always withdraw more value from the circulation by means of the exchange of their commodities than the value of the capital originally and repeatedly advanced by them. A, B, C, D, continually throw a greater value into the circulation in the form of commodity-capital, than they withdraw from it in the form of productive capital‘this operation is as manysided as the various independent capitals in action. Hence they have continually to divide among themselves a sum of values (that is to say, every one withdaws from circulation a productive capital) equal to the sum of values of their respective productive capitals; and they furthermore divide among themselves just as continually a sum of values which they all throw into circulation in the form of commodities, representing the excess of the commodity-capital over its elements of production.
II.XVII.38

But the commodity-capital must be monetized before its conversion into productive capital, or before the surplus-value contained in it can be spent. Where does the money for this purpose come from? This question seems difficult at the first glance, and neither Tooke nor any one else has answered it so far.
II.XVII.39

The circulating capital of 500 p. st. advanced in the form of money-capital, whatever may be its period of turn-over, may now stand for the total capital of society, that is to say, of the capitalist class. Let the surplus-value be 100 p. st. How can the entire capitalist class manage to draw continually 600 p. st. out of the circulation, when they continually throw only 500 p. st. into it?
II.XVII.40

After the money-capital of 500 p. st has been converted into productive capital, it transforms itself, within the process of production, into commodities worth 600 p. st. and throws into circulation, not only commodities valued at 500 p. st., equal to the money-capital originally advanced, but also a newly produced surplus-value of 100 p. st.
II.XVII.41

This additional surplus-value of 100 p. st. is thrown into circulation in the form of commodities. There is no doubt about that. But this same operation does not by any means supply the additional money for the circulation of this new additional value.
II.XVII.42

It should not be attempted to evade this difficulty by plausible subterfuges.
II.XVII.43

For instance: So far as the constant circulating capital is concerned, it is obvious that not all invest it simultaneously. While the capitalist A sells his commodities, so that his advanced capital assumes the form of money, there is on the other hand, the available money-capital of the buyer B which assumes the form of his means of production which A is just producing. The same transaction, which restores that of B to its productive form, transforms it from money into materials of production and labor-power; the same amount of money serves in the twosided process as in every simple purchase C‘M. On the other hand, when A reconverts his money into means of production, he buys from C, and this man pays B with it, etc., and thus the transaction would be explained.
II.XVII.44

But none of the laws referring to the quantity of the circulating money, which have been analyzed in the circulation of commodities (volume I, chapter III), are in any way changed by the capitalist character of the process of production.
II.XVII.45

Hence, when we have said that the circulating capital of society, to be advanced in the form of money, amounts to 500 p. st., we have already accounted for the fact that this is on the one hand the sum simultaneously advanced, and that, on the other hand, it sets in

motion more productive capital than 500 p. st., because it serves alternately as the money fund of different productive capitals. This mode of explanation, then, assumes that money as existing whose existence it is called upon to explain.
II.XVII.46

It might be furthermore said: Capitalist A produces articles which capitalist B consumes unproductively, individually. The money of B therefore monetizes the commodity-capital of A, and thus the same amount serves for the monetization of the surplus-value of B and the circulating constant capital of A. But in that case, the solution of the question to be solved is still more directly assumed, the question: Whence does B get the money for the payment of his revenue? How did he himself monetize this surplus portion of his product?
II.XVII.47

It might also be answered that that portion of the circulating variable capital, which A continually advances to his laborers, flows back to him continually from the circulation, and only an alternating part stays continually tied up for the payment of wages. But a certain time elapses between the expenditure and the reflux, and mean-while the money paid out for wages might, among other uses, serve for the monetization of surplus-value. But we know, in the first place, that, the greater the time, the greater must be the supply of money which the capitalist A must keep continually in reserve. In the second place,

the laborer spends the money, buys commodities for it, and thus monetizes to that extent the surplus-value contained in them. Without penetrating any further into the question at this point, it is sufficient to say that the consumption of the entire capitalist class, and of the unproductive persons dependent upon it, keeps step with that of the laboring class; so that, simultaneously with the money thrown into circulation by the laboring class, the capitalists must throw money into it, in order to spend their surplus-value as revenue. Hence money must be withdrawn from circulation for it. This explanation would merely reduce the quantity of money required, but not do away with it.

II.XVII.48

Finally, it might be said: A large amount of money is continually thrown into circulation when fixed capital is first invested, and it is not recovered from the circulation until after the lapse of years, by him who threw it into circulation. May not this sum suffice to monetize the surplus-value? The answer to this is that the employment as fixed capital, if not by him who threw it into circulation, then by some one else, is probably implied in the sum of 500 p. st. (which includes the formation of a hoard for needed reserve funds). Besides, it is already assumed in the amount expended for the purchase of products serving as fixed capital, that the surplus-value contained in them is also paid, and the question is precisely, where the money for this purpose came from.

II.XVII.49

The general reply has already been given: When a mass of commodities valued at x times 1,000 p. st. has to circulate, it changes absolutely nothing in the quantity of the money required for this circulation, whether this mass of commodities contains any surplus-value or not, and whether this mass of commodities has been produced capitalistically or not. In other words, the problem itself does not exist. All other conditions being given, such as velocity of circulation of money, etc., a definite sum of money is required in order to circulate the value of commodities worth x times 1,000 p. st., quite independently of the fact how much or how little of this value falls to the share of the direct producers of these commodities. So far as any problem exists here, it coincides with the general problem: Where does all the money required for the circulation of the commodities of a certain country come from?

II.XVII.50

However, from the point of view of capitalist production, the semblance of a special problem does indeed exist. It is in the present case the capitalist who appears as the point of departure, who throws money into circulation. The money, which the laborer expends for the payment of his means of subsistence, exists previously as the money form of the variable capital and is, therefore, thrown originally into circulation by the capitalist as a medium of buying labor-power and

paying for it. The capitalist furthermore throws into circulation the money which constitutes originally the money-form of his constant, fixed and circulating, capital; he expends it as a medium of purchase, or payment, for materials of production and instruments of labor. But beyond this, the capitalist no longer appears as the starting point of the quantity of money in circulation. Now, there are only two points of departure: The capitalist and the laborer. All third classes of persons must either receive money for their services from these two classes, or, to the extent that they receive it without any equivalent services, they are joint owners of the surplus-value in the form of rent, interest, etc. The fact that the surplus-value does not all stay in the pocket of the industrial capitalist, but must be shared by him with other persons, has nothing to do with the present question. The question is: How does he monetize his surplus-value, not, how does he divide the money later after he has secured it? For the present case, the capitalist may as well be regarded as the sole owner of his surplus-value. As for the laborer, it has already been said that he is but the secondary point of departure, while the capitalist is the primary starting point of the money thrown by the laborer into circulation. The money first advanced as variable capital is going through its second circulation, when the laborer spends it for the payment of means of subsistence.

II.XVII.51

The capitalist class, then, remains the sole point of departure of the circulation of money. If they need 400 p. st. for the payment of means of production, and 100 p. st. for the payment of labor-power, they throw 500 p. st. into circulation. But the surplus-value incorporated in the product, with a rate of surplus-value of 100%, is equal to the value of 100 p. st. How can they continually draw 600 p. st. out of circulation, when they continually throw only 500 p. st. into it? From nothing comes nothing. The capitalist class as a whole cannot draw out of circulation what was not previously in it.
II.XVII.52

Exception is here made of the fact that the sum of 400 p. st. may, perhaps, suffice, when turned over ten times, to circulate means of production valued at 4,000 p. st. and labor-power valued at 1,000 p. st., and that the other 100 p. st. may likewise suffice for the circulation of 1,000 p. st. of surplus-value. The proportion of the sum of money to the value of the commodities circulated by it does not matter here. The problem remains the same. Unless the same pieces of money circulate several times, a capital of 5,000 p. st. must be thrown into circulation, and 1,000 p. st. would be required to monetize the surplus-value. The question is, where this money comes from, whether it be 1,000 or 100 p. st. There is no doubt that it is in excess of the money, capital thrown into the circulation.
II.XVII.53

Indeed, paradoxical as it may appear at first sight, it is the capitalist class itself that throws the money into circulation which serves for the realization of the surplus-value incorporated in the commodities. But, mark well, it is not thrown into circulation as advanced money, not as capital. The capitalist class spends it for their individual consumption. The money is not advanced by them, although they are the point of departure of its circulation.
II.XVII.54

Take some individual capitalist, who opens his business, for instance, a capitalist farmer. During the first year, he advances a money-capital of, say, 5,000 p. st., paying 4,000 p. st. for means of production, and 1,000 p. st. for labor-power. Let the rate of surplus-value be 100%, the amount of surplus-value appropriated by him 1,000 p. st. The above 5,000 p. st. comprise all the money advanced by him. But the man must also live, and he does not get any receipts until the end of the year. Take it that his consumption amounts to 1,000 p. st. These he must have in his possession. He may say to himself that he has to advance these 1,000 p. st. during the first year. But this advance has only a subjective meaning, for it signifies that he must pay for his individual consumption during the first year out of his own pocket, instead of getting the money for it out of the unpaid labor of his employes. He does not advance this money as capital. He spends it, pays it out as an equivalent for means of subsistence which he consumes. This value is spent by him as money, thrown as such into

circulation and withdrawn from it as commodities. He has consumed commodities of that amount. He has thus ceased to be in any way related to their value. The money with which he paid for this value is now an element of the circulating money. But he has withdrawn the value of this money from circulation in the form of products, and this value is destroyed with the commodities in which it was incorporated. It has disappeared. But at the end of the year he throws commodities worth 6,000 p. st. into circulation and sells them. By this means he recovers: (1) His advanced money-capital of 5,000 p. st.; (2) the monetized surplus-value of 1,000 p. st. He had thrown 5,000 p. st. into circulation when he advanced capital, and he withdraws from it 6,000 p. st., 5,000 p. st. of which cover his capital, and 1,000 p. st., his surplus-value. The last 1,000 p. st. are monetized with the money which he had himself thrown into circulation, not as a capitalist, but as a consumer, not advanced, but spent. They now flow back to him as the money-form of the surplus-value produced by him. And henceforth this operation is repeated every year. But beginning with the second year, the 1,000 p. st. which he spends are continually the converted form, the money-form of surplus-value produced by him. He spends it annually and it flows back annually.
II.XVII.55

If his capital were turned over more frequently in one year, it would not alter this condition of things, except so far as the time is concerned, and thus the size of the amount which he would have to

throw into circulation, over and above his advanced money-capital, for his individual consumption.
II.XVII.56

This money is not thrown into circulation by the capitalist as money. It is rather inherent in the character of a capitalist to be able to live on means in his possession until some surplus-value flows back to him.
II.XVII.57

In the present case we had assumed, that the sum of money, which the capitalist throws into circulation until the first surplus-value flows back to him, is exactly equal to the surplus-value which he is going to produce and monetize. This is obviously an arbitrary assumption, so far as the individual capitalist is concerned. But it must be correct when applied to the entire capitalist class, when simple reproduction is assumed. It expresses the same thing that this assumption does, namely, that the entire surplus-value is consumed unproductively, but it only, not any portion of the original capital stock.
II.XVII.58

It had been previously assumed, that the entire production of precious metals (500 p. st.) sufficed only for the wear and tear of the money.
II.XVII.59

The capitalists producing gold possess their entire product in gold, that portion which replaces constant capital as well as that which replaces variable capital and that consisting of surplus-value. A portion of the social surplus-value, therefore, consists of gold, not of a product which is monetized by means of circulation. It consists from the outset of gold and is thrown into circulation in order to draw products out of it. The same applies in this case to wages, to variable capital, and to the part replacing the advanced constant capital. Hence, while a part of the capitalist class throws into circulation commodities greater in value, (by the amount of the surplus-value) than the money-capital advanced by them, another part of the capitalist class throws into circulation money of greater value (by the amount of the surplus-value) than the commodities which they continually withdraw from circulation for the production of gold. While one part of the capitalist class pumps continually more gold out of the circulation than they throw into it, another part of them who produce gold pump continually more gold into it than they take out in means of production.
II.XVII.60

Although a part of this product of 500 p. st. in gold is surplus-value of the gold-producers, still the entire sum is intended only to replace the money worn out in the circulation of commodities. It is immaterial for this purpose, how much of this gold monetizes the surplus-value incorporated in the commodities, and how much of their other constituents.

By transferring the production of gold from one country to another, nothing is changed in the fundamental condition of the matter. One part of the social labor-power and the social means of production of the country A is converted into a product, for instance, linen, valued at 500 p. st., which is exported to the country B in order to be there traded for gold. The productive capital employed for this purpose by the country A throws no more commodities, as distinguished from money, upon the market of this country than it would if it were directly engaged in the production of gold. This product of A is represented by 500 p. st. in gold, and enters into the circulation of this country only in money. That portion of the social surplus-value which is contained in this product exists directly in the form of money, and never in any other form for the country A. Although, from the point of view of the capitalist, only a part of the product represents surplus-value, and another part replaces capital, still the question as to how much of this gold replaces constant, and how much variable capital, and how much of it represents surplus-value, depends exclusively on the respective proportions which wages and surplus-value constitute of the value of the circulating commodities. That portion which represents surplus-value is distributed among the various members of the capitalist class. Although this surplus-value is continually spent by them for individual consumption and recovered by the sale of new products‘it is precisely this purchase and sale which

circulates the money required for the monetization of the surplus-value among them‘there is nevertheless a portion of the social surplus-value, in the form of money, in varying proportions, in the pockets of the capitalists, just as a portion of the wages stays during a certain part of the week in the pockets of the laborers in the form of money. And this portion is not limited by that portion of the money-product which forms originally the surplus-value of the capitalists producing gold, but, as we have said, by the proportion in which the above product of 500 p. st. is generally distributed between capitalists and laborers, and in which the commodity-supply to be circulated consists of surplus-value and other constituents of value.
II.XVII.62

However, that portion of surplus-value, which does not exist in other commodities, but outside of them in the form of money, consists of a portion of the annually produced gold only to the extent that a portion of the annual production of gold circulates for the realization of surplus-value. The other portion of money, which is continually in the hands of the capitalists, in varying portions, being the money-form of their surplus-value, is not an element of the annually produced gold, but of the masses of money previously accumulated in the country.
II.XVII.63

According to our assumption, the annual production of gold just covers the annual wear of money, to the amount of 500 p. st. If we keep in mind these 500 p. st., and make abstraction of that portion of the annually produced mass of commodities which is circulated by means of previously accumulated money, then the surplus-value incorporated in the commodities will find money for its monetization in circulation for the simple reason that surplus-value is annually produced in the form of gold on the other side. The same applies to the other parts of the gold product which replace the advanced money-capital.
II.XVII.64

Now, two things are to be noted here.
II.XVII.65

In the first place, it follows that the surplus-value spent by the capitalists as money, as well as the variable and other productive capital advanced by them in money is actually a product of the laborers, namely of those engaged in the production of gold. They produce anew not only that portion of gold which is "advanced" to them as wages, but also that portion of gold in which the surplus-value of the capitalist gold producers is directly embodied. As for that portion of the gold product, which replaces only the constant capital-value advanced for its production, it re-appears in the form of money (or a product in general) only through the annual labor of the working men. In the beginning of the business, it was originally

expended in money by the capitalists, and this money was not newly produced, but formed a part of the circulating mass of social money. But to the extent that it is replaced by a new product, by additional money, it is the annual product of the laborer. The advance on the part of the capitalist appears here likewise merely as a form, which owes its existence to the fact that the laborer is neither the owner of his own means of production, nor able to command, during his production, the means of subsistence produced by other laborers. II.XVII.66

In the second place, as concerns that mass of money which exists independently of this annual reproduction of 500 p. st., either in the form of a hoard, or of circulating money, things must be, or rather must have been originally just as they still are with reference to these 500 p. st. annually. We shall return to this point at the close of this section. For the present, we wish to make a few other remarks.

II.XVII.67

We have seen during our study of the turn-over, that, other circumstances remaining equal, a change in the length of the periods of turn-over requires different amounts of money-capital, in order to carry on production on the same scale. The elasticity of the money-circulation must, therefore be sufficient to adapt itself to this fluctuation of expansion and contraction.

If we furthermore assume other circumstances as equal‘the length, intensity, and productivity of the working day also remaining unchanged‘but a different division of the value of the product, between wages and surplus-value, so that either the former rise and the latter fall, or vice versa, the mass of the circulating money is not touched thereby. This change can take place without any expansion or contraction of the mass of money in circulation. Let us consider particularly the case in which there would be a general rise in wages, so that, under the given assumptions, there would be a general fall in the rate of surplus-value, while there would not be any change, also according to our assumption, in the mass of circulating commodities. In this case, there should be indeed an increase of the money-capital which must be advanced as variable capital in the quantity of money which serves for this purpose. But to the exact extent that the amount of money required for the function of variable capital grows, does the surplus-value decrease, and thus the amount of money required for its realization. The amount of money required for the realization of the values of the commodities is not affected thereby, any more than this value itself. The cost price of the commodity rises for the individual capitalist, but its social price of production remains unchanged. That which is changed is the proportion, in which, apart from the constant portion of its value, the price of production stands to wages and profits.

II.XVII.69

But, it is argued, a greater outlay of variable capital (the value of the money is, of course, considered the same) means a larger amount of money in the hands of the laborer. This causes a greater demand for commodities on the part of the laborer. This, in turn, leads to a rise in the price of commodities. Or, it is said: If wages rise, the capitalists raise the prices of their commodities. In either case, the general rise in wages causes a rise in the prices of commodities. Hence a greater amount of money is needed for the circulation of commodities, no matter whether the rise in prices is explained in this or that way.

II.XVII.70

Reply to the first argument: In consequence of a rise in wages, especially the demand of the laborers for the necessities of life will rise. In a lesser degree their demand for articles of luxury will increase, or the demand will be developed for things which did not generally belong to the scope of their consumption. The sudden and increased demand for the necessities of life will doubtless raise their prices momentarily. As a result, a greater portion of the social capital will be invested in the production of the necessities of life, and a smaller portion in the production of articles of luxury, since these fall in price on account of the decrease in surplus-value and the consequent decrease in the demand of the capitalists for these

articles. And to the extent that the laborers themselves buy articles of luxury, the rise in their wages‘to this degree‘does not promote an increase in the prices of necessities of life, but simply fills the place of the buyers of luxuries. More luxuries than before are consumed by laborers, and relatively fewer by capitalists. That is all. After some fluctuations, the value of the circulating commodities is the same as before. As for the momentary fluctuations, they will not have any other effect than to throw unemployed money-capital into the inland circulation, capital which so far had sought employment in speculative enterprises at the stock exchange or in foreign countries.
II.XVII.71

Reply to the second argument: If it were in the power of the capitalist producers to raise the prices of their commodities at will, they could and would do so without waiting for a rise in wages. Wages would never rise while the prices of commodities were going down. The capitalist class would never resist the trades unions, since the capitalists could always and under all circumstances do what they are now doing exceptionally under definite peculiar, one might say local, circumstances, to wit, to avail themselves of every rise in wages to raise prices much higher and thus pocket greater profits.
II.XVII.72

The claim that the capitalists can raise the prices of articles of luxury, because the demand for them decreases (in consequence of the

reduced demand of the capitalists whose spending money has decreased) would be a very unique application of the law of supply and demand. The prices of articles of luxury fall in consequence of reduced demand to the extent that capitalist buyers are not replaced by laboring buyers, and so far as this replacement takes effect, the demand of the laborers does not result in a rise of the prices of necessities, for the laborers cannot spend that portion of their increased wages for necessities which they spend for luxuries. Consequently capital is withdrawn from the production of luxuries, until their supply in the market is reduced to the measure which corresponds to their altered role in the process of social production. With their production thus reduced, they rise in price, provided their value is otherwise unchanged, to their normal level. So long as this contraction, or this process of compensation, takes place, there is just as constantly, with rising prices of necessities, a migration of capital into the production of these to the degree that it is withdrawn from the other line of business, until the demand is satisfied. Then the balance is restored, and the end of the whole process is that the social capital, including the money-capital, is divided in a different proportion between the production of necessary means of subsistence and that of luxuries.
II.XVII.73

The entire objection is a scarecrow set up by the capitalists and their apologists in economics.

The facts, which furnish the material for this scarecrow, are of three kinds:

(1). It is the general law of the circulation of money that the quantity of circulating money increases if the total price of the circulating commodities increases, other circumstances remaining the same, regardless of whether this increase of the totality of prices applies to the same quantity of commodities, or to a greater quantity. The effect is then taken for the cause. Wages rise (although rarely and only exceptionally in proportion) with the increasing price of the necessities of life. This rise in wages is a result, not a cause, of the rise in the prices of commodities.

(2). In the case of a partial, or local, rise of wages‘that is to say, a rise only in some lines of production‘a local rise in the prices of the products of this line may follow. But even this depends on many circumstances, for instance, that wages had not been abnormally depressed previously, so that the rate of profits was abnormally high, that the market is not narrowed by a rise in prices (so that a contraction of its supply previous to the raising of its prices will not be necessary), etc.

(3). In the case of a general rise of wages, the price of the produced commodities rises in lines of business where the variable

capital preponderates, but falls, on the other hand, in lines where the constant, or eventually the fixed, capital preponderates.

II.XVII.75

We found in our study of the simple circulation of commodities (volume I, chapter III, 2), that, even though the money-form of any definite quantity of commodities is infinitesimal within its circulation, still the money in the hand of one man disappears during the transformation of a certain commodity and takes its place in the hands of another, so that commodities are not only exchanged, or replaced by one another, but this mutual exchange of places is also promoted and accompanied by a universal precipitation of money. "When one commodity replaces another, the money commodity sticks to the hands of some third person. Circulation sweats money from every pore." (Vol. I, page 127.) The same fact is expressed, on the basis of capitalist production, of commodities, by the continual existence of a portion of capital in the form of money-capital, and by the retention of a portion of surplus-value in the hands of its owners, likewise in the form of money.

II.XVII.76

Aside from this, the rotation of money‘that is to say, the return of money to its point of departure‘so far as it is an element in the turn-over of capital, is a phenomenon entirely different from, or even the

reverse of, the circulation of money,*34 which expresses its removal from the point of departure through a number of hands. (Vol. I. page 129.) Nevertheless an accelerated turn-over implies naturally an acceleration of the circulation.
II.XVII.77

As for the variable capital, if a certain money-capital, say 500 p. st., is turned over ten times in a year, in the form of a variable capital, it is evident that this aliquot part of the quantity of money in circulation circulates ten times its value, or 5,000 p. st. It circulates ten times per year between the capitalist and the laborer. The laborer is paid, and pays, ten times per year with the same aliquot amount of money. If the same variable capital were turned over only once a year, the scale of production remaining the same, there would be only one turn-over of capital per year.
II.XVII.78

Furthermore: The constant portion of the circulating capital may be, say, 1,000 p. st. If the capital is turned over ten times, the capitalist sells his commodity, and therefore also the constant circulating portion of its value, ten times per year. The same aliquot part of the circulating quantity of money (1,000 p. st.) passes ten times from the hands of its owners into those of the capitalist. This means ten changes of place on the part of this money from one hand into another. In the second place, the capitalist buys means of production

ten times per year. This again implies ten turn-overs of the money from one hand into another. With regard to the amount of 1,000 p. st., commodities valued at 10,000 p. st. have been sold by the industrial capitalist, and then commodities valued at 10,000 p. st. purchased. By means of 20 circulations of 1,000 p. st. in money a commodity supply of 20,000 p. st. has been circulated.
II.XVII.79

Finally, with an acceleration of the turn-over, also that portion of money circulates faster, which realizes the surplus-value.
II.XVII.80

But, on the other hand, an acceleration in the circulation of money does not necessarily imply a more rapid turnover of capital, and thus of money, that is to say, it does not necessarily imply a contraction and more rapid renewal of the process of reproduction.
II.XVII.81

A more rapid circulation of money takes place whenever a larger number of transactions are carried on with the same amount of money. This may take place also with the same periods of reproduction of capital, as a result of changes in the technical appliances of the circulation of money. Furthermore, there may be an increase in the number of transactions in which money circulates without expressing actual exchanges, of commodities (marginal

business at the stock-exchange, etc.). On the other hand, some circulations of money may be entirely dispensed with. For instance, where the farmer is himself a real estate owner, there is no circulation of money between the capitalist farmer and the real estate owner; where the industrial capitalist is himself the owner of the capital, there is no circulation of money between him and the creditor.
II.XVII.82

As for the primitive formation of a hoard of money in a certain country, and its appropriation by a few, it is unnecessary to discuss it at this point.
II.XVII.83

The capitalist mode of production‘its basis being wage-labor as well as the payment of the laborer in money and in general the transformation of services for natural products into services for money‘ cannot develop a larger extension and a greater systematization, unless there is available in this country a quantity of money sufficient for the circulation and the corresponding formation of a hoard (reserve fund, etc.). This is the historical premise. However, this must not be interpreted in the sense that a sufficient hoard must first be formed, before capitalist production can begin. It rather develops simultaneously with the evolution of its foundations and one of these foundations is a sufficient supply of precious metals. Hence the increased supply of precious metals since the 16th century is an

essential factor in the history of the development of capitalist production. But so far as the necessary further supply of money material on the basis of capitalist production is concerned, surplus-value incorporated in products is on the one hand thrown into circulation without the money required for its monetization, and on the other hand surplus-value in the form of gold without the previous transformation of products into gold.
II.XVII.84

The additional commodities which are to be converted into money find the necessary amount of money at hand, because on the other side additional gold (and silver) intended for conversion into commodities is thrown into circulation, not by means of exchange, but by production itself.

II. ACCUMULATION AND REPRODUCTION ON AN ENLARGED SCALE.

II.XVII.85

To the extent that accumulation takes place in the form of reproduction on an enlarged scale, it is evident that it does not offer any new problem in matters of the circulation of money.
II.XVII.86

In the first place, the additional money-capital required for the function of the increasing productive capital is supplied by that portion of the realized surplus-value, which is thrown into circulation by the capitalists as money-capital, not as the money-form of their revenue. The money is already present in the hands of the capitalists. Only its employment is different.
II.XVII.87

Now, by means of the additional productive capital, its product, an additional quantity of commodities, is thrown into circulation. Together with this additional quantity of commodities, a portion of the additional money required for its circulation is thrown into circulation, so far as the value of this mass of commodities is equal to that of the productive capital consumed in their production. This additional quantity of money has precisely been advanced as an additional money-capital, and therefore it flows back to the capitalist through the turn-over of his capital. Here the same question reappears, which we met previously. Where does the additional money come from, by which the additional surplus-value now contained in the form of commodities is to be realized?
II.XVII.88

The general reply is again the same. The sum total of the prices of the commodities has been increased, not because the prices of a given quantity of commodities have risen, but because the mass of

the commodities now circulating is greater than that of the previously circulating commodities, and because this increase has not been offset by a fall in prices. The additional money required for the circulation of this greater quantity of commodities of greater value must be secured, either by greater economy in the circulating quantity of money‘ whether by means of balancing payments, etc., or by some measure which accelerates the circulation of the same coins‘or, by the transformation of money from the form of a hoard into that of a circulating medium. This does not merely imply that barren money-capital becomes active as a means of purchase or payment, or that money-capital which is already actually circulating for the benefit of the society while representing a reserve fund for its owner is thus performing a double service (such as deposits in banks which are continually balanced). It also implies that the stagnating reserve funds of money are economized.
II.XVII.89

"In order that money should flow continuously as coin, coin must constantly coagulate as money. The continuous flow of coin depends on its constant accumulation in the form of reserve funds of coin which spring up throughout the sphere of circulation and form sources of supply; the formation, distribution, disappearance, and reformation of these reserve funds is constantly changing, their existence constantly disappears, their disappearance constantly exists. Adam Smith expressed this never-ceasing transformation of coin into money

and of money into coin by saying that every owner of commodities must always keep in supply, aside from the particular commodity which he sells, a certain quantity of the universal commodity with which he buys. We saw, that in the process C‘M‘C the second member M‘C splits up into a series of purchases which do not take place at once, but at intervals of time, so that one part of M circulates as coin while the other rests as money. Money is in that case only suspended coin and the separate parts of the circulating mass of coins appear now in one form, now in another, constantly changing. This first transformation of the medium of circulation into money represents, therefore, but a technical aspect of money-circulation." (Karl Marx, "A Contribution to the Critique of Political Economy," 1859, page 167-168.)‘("Coin" as distinguished from money is here employed to indicate the function of money as a mere medium of circulation as compared to its other functions.)
II.XVII.90

When all these measures do not suffice, an additional production of gold must take place, or, what amounts to the same, one portion of the additional product is directly or indirectly exchanged for gold‘the product of countries in which precious metals are mined.
II.XVII.91

The entire amount of labor-power and social means of production expended in the annual production of gold and silver, so far as they

serve as instruments of circulation, constitutes a bulky item of the dead expense of the capitalist mode of production, or of the production of commodities in general. It deprives social economy of a corresponding amount of potential additional means of production and consumption, that is to say, of actual wealth. To the extent that the cost of this expensive machinery of circulation is decreased at a given scale of circulation or a given scale of its extension, the productive power of society is increased. Hence, so far as the auxiliary means developed with the credit system have any influence in that direction, they increase the social wealth directly, either by running a large portion of the social labor-process without intervention of actual money, or by raising the capacities of the money already in circulation.
II.XVII.92

This disposes also of the absurd question, whether capitalist production in its present volume would be possible without the credit system (even if analyzed only from this point of view), that is to say, if it were possible with the circulation of metallic coin alone. Evidently this is not the case. It would have found the barriers of the limited production of precious metals in its way. On the other hand, one must not entertain any myths as to the productive power of the credit system, so far as it supplies or releases money-capital. The further analysis of this question is out of place here.

II.XVII.93

We have now to study the case, in which no actual accumulation, that is to say, no immediate expansion of the scale of production, takes place, but a portion of the realized surplus-value is accumulated for a longer or shorter time as a money reserve, in order to be employed later on as productive capital.

II.XVII.94

To the extent that money so accumulating is additional money, the matter needs no explanation. It can only be a portion of the surplus-gold imported from gold producing countries. In this connection it must be remembered that the national product, in exchange for which this gold is imported, is no longer in this country. It has been exported to foreign countries in exchange for gold.

II.XVII.95

But if we assume that the same amount of money is still in the country the same as before, then the accumulated and accumulating money has accrued from the circulation. Only its function is changed. It is converted from circulating money into a gradually accruing latent money capital.

II.XVII.96

The money which is accumulated in this case is the money-form of sold commodities, and represents that portion of its value which constitutes surplus-value for its owner. (The credit system is not supposed to exist in this case.) The capitalist who accumulates this money has sold to that extent without buying.
II.XVII.97

If we look upon this transaction merely as a limited phenomenon, there is nothing to explain. A part of the capitalists keep the money realized by the sale of their products without drawing products out of the market in return for it. Another part of them, on the other hand, transform all their money into products, with the exception of the constantly recurring money-capital required for the promotion of production. One portion of the products thrown upon the market as bearers of surplus-value consists of means of production, or of the actual elements of variable capital, the necessary means of subsistence. It can serve immediately for the expansion of production. For it has not been assumed that one part of the capitalists accumulates capital, while the other consumes its surplus-value entirely, but only that one part is engaged in the accumulation of money, in the formation of latent money-capital, while the other part accumulates actually, that is to say, expands the scale of production, really adds to its productive capital. The available quantity of money remains sufficient for the requirements of circulation, even if one part of the capitalists accumulates money, while another expands

production, and vice versa. Moreover, the accumulation of money on one side may proceed without cash money by the mere accumulation of outstanding claims.
II.XVII.98

But the difficulty arises when we assume, not a partial, but a general accumulation of money-capital on the part of the capitalist class. Apart from this class, there is, according to or assumption‘the general and exclusive domination of capitalist production‘no other class but the working class. All that the working class buys is equal to the sum total of its wages, equal to the sum total of the variable capital advanced by the entire capitalist class. This money flows back to the capitalist class by the sale of their product to the working class. The variable capital thus resumes its money-form. Let the sum total of the variable capital be x times 100 p. st., that is to say, the sum total of the variable capital actually employed, not merely advanced for the current year. It does not alter the question fundamentally, whether we know how much or how little money is actually advanced in this variable capital-value during the year, according to the velocity of the turn-over. The capitalist buys with these x times 100 p. st. a certain amount of labor power, or pays wages to a certain number of laborers‘first transaction. The laborers buy with this same amount a certain quantity of commodities from the capitalists, where-by the same x times 100 p. st. flow back into the hands of the capitalist class‘second transaction. And this is continually repeated. This amount

of x times 100 p. st., then, can never enable the working class to buy that portion of its product in which the constant capital is embodied, much less that in which the surplus-value of the capitalist class is incorporated. The laborers can never buy more with these x times 100 p. st. than a portion of the social product, and the value of this portion is equal to that value of the social product in which the advanced variable capital is embodied.
II.XVII.99

Apart from the case, in which this universal accumulation of money expresses nothing but the distribution of the additional incoming precious metal, in whatever proportion, among the various individual capitalists, how can the entire capitalist class accumulate money under such circumstances?
II.XVII.100

They would all have to sell a portion of their product without buying anything in return. It is not at all mysterious that they should all have a certain fund of money which they throw into circulation for their consumption, and a certain portion of which flows back to each one of them. But this fund of money, as a fund for circulation, arises precisely through the monetization of surplus-value and is not by any means latent money-capital.
II.XVII.101

If we view the matter as it takes place in reality, we find that the latent money-capital, which is accumulated for future use, consists:

(1). Of deposits in banks; and it is a comparatively insignificant sum which is really at the disposal of the bank. Money-capital is but nominally accumulated there. What is actually accumulated are outstanding claims on money which can be monetized (so far as they are really monetized) only because there is a certain balance between the money drawn and the money deposited. It is a relatively small sum that is in the hands of the banker as money.

(2). Of public bonds. These are not capital at all, but mere claims on the annual product of the nation.

(3). Of stocks. So far as they are not bogus, they are titles of ownership of some actual capital belonging to some corporation and drafts on the surplus-value flowing from it.

II.XVII.102

There is no accumulation of money in any of these cases. What appears on the one side as an accumulation of money-capital, appears on the other as a continual and actual expenditure of money. It does not alter the case, whether the money is expended by its owner, or by others who are his debtors.

II.XVII.103

On the basis of capitalist production, the formation of a hoard is never an end in itself, but the result, either of a clogging of the circulation‘larger amounts of money than is generally the case assuming the form of a hoard‘or of accumulations conditioned on the turn-over; or, finally, the hoard is merely a formation of latent money-capital held temporarily and intended for future employment as productive capital.
II.XVII.104

Hence, while a portion of the money realized in surplus-value is on the one hand always withdrawn from circulation and accumulated as a hoard, another part of the surplus-value is at the same time continually converted into productive capital. With the exception of the distribution of additional precious metals among the members of the capitalist class, accumulation in the form of money never takes place simultaneously at all points.
II.XVII.105

That which is true of the other portion of the annual product, is also true of that portion of it which represents surplus-value in the form of commodities. A certain sum of money is required for its circulation. This sum of money belongs to the capitalist class quite as much as the annually produced quantity of commodities which represent surplus-value. It is originally thrown into circulation by the capitalist class itself. It is constantly redistributed among them by means of

circulation itself. Just as in the case of the circulation of coin in general, so is there a clogging of a portion of this mass at ever varying points, while another portion is continually circulating. Whether a part of this accumulation is made intentionally for the purpose of forming money-capital, or not, does not alter the matter.
II.XVII.106

Exception has been made here of those adventures of circulation by which one capitalist grasps a portion of the surplus-value, or even of the capital, of another, thereby causing a onesided accumulation and centralization of money-capital as well as of productive capital. For instance, a portion of the appropriated surplus-value accumulated by A as money-capital may be a portion of the surplus-value of B which does not flow back to him.

Notes for this chapter

34.
Although the physiocrats still intermingle these two phenomena indiscriminately, they are nevertheless the first who emphasize the reflux of money to its starting point as the essential form of circulation of capital, as that form of circulation which promotes reproduction. "Throw a glance at the Tableau Economique, and you will see that the productive class gives the money with which the other classes buy products from it, and that they return this money to

it when they come back next year to make the same purchases.... You see, then, that there is in this instance no other cycle but that of expenditure followed by reproduction, and of reproduction followed by expenditure. And this cycle is described by the circulation of money, which is the measure of expenditure and reproduction."'Quesnay, Problems Economiques, Daire edition, Physiocrats, I, pages 208, 209.) "It is this continual advance and return of capitals which must be called the circulation of money, this useful and fertile circulation, which gives life to all the labors of society, which maintains the activity and life of the social body, and which is with good justification compared to the circulation of blood in the animal body." (Turgot, Reflexions, etc, Daire edition, I, page 45.)

PART III.
The Reproduction and Circulation of the Aggregate Social Capital.
Part III,

Volume II Chapter XVIII. INTRODUCTION.

I. THE OBJECT OF THE ANALYSIS.

III.XVIII.1

The immediate process of production of capital is its labor process and self-expansion, the process whose result is the commodity-product, and whose compelling motive is the production of surplus-value.
III.XVIII.2

The process of reproduction of capital comprises this immediate process of production as well as the two phases of the process of circulation, strictly so called, in other words, it comprises the entire cycle, which, as a periodic process, constantly repeated at definite intervals, constitutes the turnover of capital.
III.XVIII.3

No matter whether we study the rotation in the form of M‘M' or that of P‘P, the immediate process of P itself always forms but one link in the chain of this rotation. In the one form it appears as a promoter of the process of circulation, in the other the process of circulation appears as its promoter. Its continual renewal, the continual rehabilitation of capital as productive capital, is in either case conditioned on its metamorphoses in the process of circulation. On the other hand, the continually renewed process of production is the condition of the metamorphoses which the capital traverses ever anew in the sphere of circulation, its alternate incarnation as money-capital and commodity-capital.
III.XVIII.4

However, every individual capital forms but an individual fraction, endowed with individual life, as it were, of the aggregate social capital, just as every individual capitalist is but an individual element of the capitalist class. The movement of the social capital consists of the totality of the movements of its individualized fractional parts, the turnovers of the individual capitals. Just as the metamorphosis of the individual commodity is a link in the series of metamorphoses of the commodity-world‘the circulation of commodities‘so the metamorphosis of the individual capital, its turn-over, is a link in the rotation of the social capital.
III.XVIII.5

This total process comprises both the productive consumption (the immediate process of production) together with the metamorphoses (materially considered, exchanges) which promote it, and the individual consumption together with its corresponding metamorphoses, or exchanges. It includes on the one hand the conversion of variable capital into labor-power, and thus the incorporation of labor-power in the process of capitalist production. Here the laborer appears as the seller of his commodity, labor-power, and the capitalist as its buyer. But on the other hand the sale of the commodities implies their purchase by the working class, in other words, their individual consumption. Here the working class appear as buyers and the capitalists as sellers of commodities to the laborers.
III.XVIII.6

The circulation of the commodity-capital implies the circulation of surplus-value, hence also the purchases and sales, by which the capitalists promote their individual consumption, the consumption of surplus-value.
III.XVIII.7

The rotation of individual capitals, then, in their aggregation as social capital, but in their totality, comprises not only the circulation of capital, but also the general circulation of commodities. The last named can originally consist of only two parts: (1) The rotation of the capital itself, and (2) the rotation of the commodities which pass into individual consumption, the commodities for which the laborer expends his wages and the capitalist his surplus-value (or a part of it). True, the rotation of capital comprises also the circulation of surplus-value, so far as it is a part of the commodities, and likewise the conversion of the variable capital into labor-power, the payment of wages. But the expenditure of this surplus-value and wage for commodities does not form a link in the circulation of capital, although at least the expenditure of wages is a requirement for this circulation.
III.XVIII.8

In volume I the process of capitalist production was analyzed as an individual transaction as well as a process of reproduction, the production of surplus-value as well as the production of capital. The

changes of form and substance experienced by capital in the sphere of circulation were assumed without lingering over them. It was assumed that, on one hand, the capitalist sells the product at its value, and on the other, that he finds within the sphere of circulation the material means of production required for the renewal or continuation of the process. The only transaction within the sphere of circulation over which we had lingered in the first volume was the sale and purchase of labor-power as the fundamental condition of the capitalist mode of production.
III.XVIII.9

In the first part of volume II, the various forms were considered which capital assumes in its rotation, and the various forms of this rotation itself.
III.XVIII.10

In the second part of this volume, the rotation of capital was studied as a periodical process, as a turn-over. It was shown on one side, in what manner the various constituent parts of capital (fixed and circulating) accomplish the rotation of forms in different periods of time and different ways; and, on the other side, the circumstances were analyzed on which the different duration of the working period and the period of circulation is conditioned. We observed the influence of the period of turn-over and of the different proportions of its component parts upon the volume of the process of production and

upon the annual rate of surplus-value. Indeed, while it was the successive forms continually assumed and discarded by capital in its rotation which were studied in part I of volume II, it was shown in part II of this volume, how a capital of a given magnitude is simultaneously divided, within this flow and succession, into the different forms of productive capital, money-capital, and commodity-capital, in varying proportions, so that they do not only relieve one another, but that different portions of the total capital-value are continually side by side and serve in these different forms. Especially money-capital was revealed in its peculiarities, which had not been shown in volume I. Certain laws were found, according to which certain portions of different size of a given capital must be continually advanced and renewed in the form of money-capital, according to the conditions of the turn-over, in order to maintain in service a productive capital of a certain volume.
III.XVIII.11

But in both the first and second parts of this volume, it was only a question of some individual capital, of the movement of some individualized part of social capital.
III.XVIII.12

However, the turn-overs of individual capitals intermingle, are mutually conditioned on one another, are their mutual premises, and form precisely in this interrelation the movement of social capital. Just as in

the simple circulation of commodities the total metamorphosis of a certain commodity appeared as a link in the series of metamorphoses of the world of commodities, so now the metamorphosis of individual capital appears as a link in the series of a metamorphoses of the aggregate social capital. But while the simple circulation of commodities did not necessarily imply the rotation of capital‘since it may take place on the basis of non-capitalist production‘the rotation of the aggregate social capital, as we have seen, implies also the circulation of commodities not belonging to the rotation of some individual capital, in other words, the circulation of commodities which do not represent any capital.
III.XVIII.13

We have now to study the process of circulation of individual capitals in their capacity as component parts of the aggregate social capital (which circulation constitutes in its entirety the process of reproduction), that is to say, the process of rotation of this aggregate social capital.

II. THE ROLE OF MONEY-CAPITAL.

III.XVIII.14

(Although the following belongs in a later part of this section, we shall analyze it immediately, namely, the money-capital considered as a constituent part of the aggregate social capital.)
III.XVIII.15

In the study of the turn-over of the individual capital, the money-capital revealed two sides.
III.XVIII.16

In the first place, it is the form in which every individual capital appears upon the scene and opens its process as capital. It therefore appears as the prime promoter, giving the first impetus to the entire process.
III.XVIII.17

In the second place, according to the different durations of the periods of turn-over and the different proportion of its two parts‘the working period and the period of circulation‘that portion of the advanced capital-value which must be continually advanced and renewed in the form of money maintains a different proportion to the productive capital which it sets in motion, or in other words, to the continuous scale of production. But whatever may be this proportion, that portion of the active capital-value which can continually serve as productive capital is limited under any circumstances by that portion of the advanced capital-value which must exist continually beside the

productive capital in the form of money. It is here merely a question of a normal turn-over, an abstract average. Exception is made of the additional money-capital required for the compensation of the interruptions of the circulation.
III.XVIII.18

In regard to the first point, we have seen that the production of commodities implies the circulation of commodities, and the circulation of commodities implies the materialization of commodities in money, the circulation of money; the duplication of commodities in commodities and money is a law of the transformation of products into commodities. The capitalist production of commodities likewise implies‘whether considered socially or individually‘that capital in the form of money, or money-capital, is the prime motor of every new business and its continual motor. Especially the circulating capital implies the continuous reappearance of money-capital in short intervals as a motor. The entire advanced capital-value, that is to say, all the elements of capital composed of commodities, labor-power, instruments and materials of production, must be continually bought with money and again bought with money. What is true of the individual capital, is also true of the social capital which functions only in the form of many individual capitals. But, as we showed in volume I, this does not imply that the field of activity of capital, the scale of production, even on a capitalist basis, depends absolutely for its extension on the amount of the money-capital in service.

III.XVIII.19

Elements of production are incorporated in the capital whose expansion within certain limits is independent of the magnitude of the advanced money-capital. The payment of labor-power remaining the same, it can yet be exploited more or less extensively or intensively. If the money-capital is increased with this greater exploitation, that is to say, if wages are raised, it is not proportionately, or, in other words, they are not actually raised.

III.XVIII.20

The productively exploited materials of nature‘the soil, the seas, ore, forests, etc.‘which do not constitute an element in the value of capital, are intensively or extensively better exploited with an increasing exertion of the same labor-power, without requiring an additional advance of money-capital. The actual elements of productive capital are thus multiplied without requiring a greater advance of money-capital. But so far as such an advance is required for additional auxiliary materials, the money-capital, in which the capital-value is advanced, is not increased proportionately to the augmented effectiveness of the productive capital, so that in reality it is not increased.

III.XVIII.21

The same instruments of labor, and thus the same fixed capital, may be more effectively used by a prolongation of their daily use and by greater intensity of employment, without an additional investment of money for fixed capital. There is, in that case, only a more rapid turn-over of the fixed capital, but the elements of its reproduction are also supplied more rapidly.
III.XVIII.22

Apart from materials of nature, it is possible to incorporate natural forces which do not cost anything as agents of the productive progress with more or less heightened effect. The degree of their effectiveness depends on the methods and scientific progress which do not cost the capitalist anything.
III.XVIII.23

The same is true of the social combination of labor-power in the process of production and of the accumulated skill of the individual laborers. Carey calculates that the real estate owner never receives enough, because he is not paid for all the capital or labor which have been put into the soil since time immemorial in order to give it its present productivity. (Of course, no mention is made of the productivity of which the soil is robbed.) According to this argument, the laborer would have to be paid according to the work which had to be done by the entire human race in order to develop a savage into a modern mechanic. One should rather think: If all the unpaid

labor embodied in the soil and appropriated by the real estate owner is counted, then all the capital ever invested in this soil has been paid over and over with usury, so that society has long ago bought the real estate over and over.
III.XVIII.24

The increase in the productive powers of labor, so far as it does not imply an additional investment of capital-value, augments in the first analysis indeed only the quantity of the product, not its value, except the extent to which it is enabled to produce more constant capital with the same labor and thus to preserve its value. But it forms at the same time new material for capital, hence the basis for an increased accumulation of capital.
III.XVIII.25

So far as the organization of social labor itself, and thus the increase in the social productivity of labor, requires a production on a large scale and thus the advance of large quantities of money-capital on the part of individual capitalists, we have shown in volume I that this is accomplished in part by the centralization of capitals in a few hands, without necessarily implying an increase in the volume of the actively engaged capital-values, and consequently in the volume of the money-capital, in which they are advanced.
III.XVIII.26

Finally, we have shown in the preceding part that a contraction of the period of turn-over permits of setting in motion the same productive capital with less money-capital, or to set in motion more productive capital with the same money-capital.
III.XVIII.27

But evidently all this has nothing to do with the real question of money capital. It shows only that the advanced capital, a given sum of values consisting in its free form, in its value-form, of a certain sum of money after its conversion into productive capital, includes productive potentialities whose limits are confined within those of its values, but which may exert themselves extensively or intensively with in a certain playroom. If the prices of the elements of production‘the materials of production and labor-power‘are given, the magnitude of the money-capital required for the purchase of a definite quantity of these elements of production in the form of commodities is determined. Or, the magnitude of the value of the capital to be advanced is determined. But the extent to which this capital acts as a creator of values and products is elastic and variable.
III.XVIII.28

Now we come to the second point. It is a matter of course, that that portion of the social labor and means of production, which must be annually expended for the production or purchase of money, in order to make up for the wear and tear of coin, is to that extent a

reduction of the volume of social production. But as for the money-value which functions partly as a medium of circulation, partly as a hoard, it exists, having once been acquired, it is present apart from the labor-power, the finished means of production, and the natural sources of wealth. It cannot be regarded as a barrier of production. By its transformation into elements of production, by its exchange with other nations, the scale of production might be extended. This implies, however, that the money plays its role as international money the same as ever.
III.XVIII.29

According to the duration of the period of turn-over, a greater or smaller amount of money-capital is required in order to set the productive capital in motion. We have also seen that the division of the period of turn-over into a working period and a period of circulation requires an increase of the capital latent or suspended in the form of money.
III.XVIII.30

So far as the period of turn-over is determined by the duration of the working period, it is determined, other conditions remaining equal, by the material nature of the process of production, not by the specific social character of this process of production. However, on the basis of capitalist production, extensive operations of a long duration require large advances of money-capital for a long time. Production in such

spheres is, therefore, dependent on the limits within which the individual capitalist has money-capital at his disposal. This barrier is broken down by the credit system and associations, connected with it, for instance, stock companies. Disturbances in the money-market, therefore, set such businesses out of action, while they, on the other hand cause disturbances in the money-market themselves.
III.XVIII.31

On the basis of capitalist production, it must be ascertained, on what scale those operations which withdraw labor and means of production from it for a long time without furnishing in return any useful product, can be carried on without injuring those lines of production which do not only withdraw continually, or at several intervals, labor-power and means of production from it, but also supply it with means of subsistence and of production. Under social or capitalist production, the laborers in lines with short working periods will always withdraw products only for a short time without giving any products in return; while lines of business with long working periods withdraw products for a long time without any returns. This circumstance, then, is due to the material conditions of the respective labor process, not to its social form. In the case of socialized production, the money-capital is eliminated. Society distributes labor-power and means of production to the different lines of occupation. The producers may eventually receive paper checks, by means of which they withdraw from the social

supply of means of consumption a share corresponding to their labor-time. These checks are not money. They do not circulate.
III.XVIII.32

We see, then, that, so far as the need of money-capital is due to the length of the working period, it is determined by two things: First, that money is the general form in which every individual capital (apart from credit) must make its entry in order to transform itself into productive capital; this follows from the nature of capitalist production, or of commodity-production in general. Second: The magnitude of the required money advance is due to the fact that labor-power and means of production must continually be withdrawn from society for a long time without any return of products convertible into money. The first requirement, namely that capital must be advanced in the form of money, is not suspended by the form of this money itself, regardless of whether it is metal-money, credit-money, token-money, etc. The second circumstance is in no way affected by the money-medium or the form of production by means of which labor, means of subsistence, and means of production are withdrawn, without the return of some equivalent into the circulation.

Notes for this chapter

35.
From manuscript II.

Part III,

Volume II Chapter XIX. FORMER DISCUSSIONS OF THE SUBJECT.

I. THE PHYSIOCRATS.

III.XIX.1

Quesnay's Tableau Economique shows in a few broad outlines, how the result of national production in a certain year, amounting to some definite value, is distributed by means of the circulation in such a way, that, other circumstances remaining the same, simple reproduction can take place, that is to say, reproduction on the same scale. The starting point of this period of production is fittingly last years's crop. The innumerable individual acts of circulation are at once viewed in their characteristic social mass movement‘the circulation between great social classes distinguished by their economic functions. We are especially interested in the fact that a portion of the total product‘which, like every other portion of it is a new result of last year's labor and intended for use‘is at the same time the bearer of old capital-values re-appearing in their natural form. It does not circulate, but remains in the hands of its producers, the class of capitalist farmers, in order to begin its service as capital once more for them. In this constant portion of the capital of one year's product,

Quesnay includes also some elements that do not belong to it, but he sees the main thing, thanks to the limits of his horizon, in which agriculture is the only productive sphere of investment where human labor produces surplus-value, hence the only productive one from the capitalist point of view. The economic process of reproduction whatever may be its specific social character, intermingles in this sphere of agriculture always with a natural process of reproduction. The obvious conditions of the latter throw light on those of the former, and keep off a confusion of thought, which is due only to the witchery of circulation.
III.XIX.2

The label of a system differs from that of other articles, among other things, by the fact that it cheats not only the buyer, but often also the seller. Quesnay himself and his immediate disciples believed in their feudal shop sign. So did our school scientists to this day. But as a matter of fact, the system of the physiocrats is the first systematic conception of capitalist production. The representative of capitalist production, the class of capitalist farmers, directs the entire economic movement. Agriculture is carried on capitalistically, that is to say, it is the enterprise of a capitalist farmer on a large scale; the immediate cultivator of the soil is the wage laborer. Production creates not only articles of use, but also their value; its compelling motive is the production of surplus-value, whose birth-place is the sphere of production, not that of circulation. Among the three classes which

figure as the bearers of the process of reproduction promoted by the circulation the immediate exploiter of "productive" labor, the producer of surplus-value, the capitalist farmer, is distinguished from those who merely appropriate surplus-value.
III.XIX.3

The capitalist character of the system of the physiocrats excited opposition even during its flourishing period, on one side on the part of Linguet and Mably, on the other that of the champions of the freeholders of small farms.

III.XIX.4

The retrogression of Adam Smith*37 in the analysis of the process of reproduction is so much more remarkable, as he manipulates other correct analyses of Quesnay, for instance, by generalizing the "avances primitives" and "avances annuelles" into "fixed" and "circulating" capital,*38 and even relapses entirely into physiocratic errors in some places. For instance, in order to demonstrate that the capitalist farmer produces more value than any other class of capitalists, he says: "No other capital sets a greater quantity of productive labor in motion than that of the capitalist farmer. Not only his laboring servants, but also his laboring cattle, consist of productive laborers." (Fine compliment for the laboring servants!) "In agriculture, nature works as well as human beings; and although its labor does not require any expense,

its product nevertheless has a value, the same as that of the most expensive laborer. The most important operations of agriculture seem to aim, not so much to increase the fertility of nature‘although they do that, too‘as to direct it toward the production of the plants most useful to mankind. A field grown up in thorns and weeds often enough furnishes as large a quantity of plant growth as the best tilled vineyard or corn field. Planting and cultivation serve frequently more to regulate than to stimulate the active fertility of nature; and after those have exhausted all their labors, there still remains a great deal of work to do for the latter. The laborer and the laboring cattle (!) employed in agriculture, therefore, do not only effect, like the laborers in the manufactures, the reproduction of a value which is equal to their own consumption and the capital employing them together with the profit of the capitalist, but that of a far greater value. Over and above the capital of the farmer and all his profits they effect regularly the reproduction of the rent of the land owner. The rent may be regarded as the product of the forces of nature, the use of which the land owner lends to the farmer. It is larger or smaller according to the estimated degree of these forces, in other words, according to the estimated natural or artificially insured fertility of the soil. It is the work of nature which remains after deducting or replacing all that which may be regarded as the work of man. It is rarely less than one quarter and frequently more than one third of the total product. No other equal quantity of labor, employed in manufacture, can ever effect so large a reproduction. In manufacture nature does nothing,

man everything; and reproduction must always be proportional to the strength of the agencies that carry it on. Therefore the capital invested in agriculture does not only set in motion a greater quantity of productive labor than any equal capital employed in manufacture; but it also adds, in proportion to the quantity of productive labor employed by it, a far greater value to the annual product of the soil and to the labor of a certain country, to the actual wealth and income of its inhabitants." (Book II, chapter 5, page 242.)
III.XIX.5

Adam Smith says in Book I, Chapter 6, page 42: "In value of the sowings is likewise a fixed capital in the proper meaning of the word." Here, then, capital is the same as capital-value; it exists in a "fixed" form. "Although the seed passes back and forth between the soil and the barn, yet it never changes owners and therefore does not circulate in reality. The farmer does not make his profit by its sale, but by its increase." (Page 186.) The absurdity lies here in the fact that Smith does not, like Quesnay before him, notice the reappearance of the value of constant capital in a new form, an important element of the process of reproduction, but merely another illustration, and a wrong one at that, of his distinction between circulating and fixed capital. In Smith's translation of "avances primitives" and "avances annuelles" into "fixed capital" and "circulating capital," the progress consists in the term "capital," whose meaning is generalized and made independent of the special consideration for the "agricultural"

application of the physiocrats; the retrogression consists in the fact that the terms "fixed" and circulating" are regarded as the fundamental distinction and so maintained.

II. ADAM SMITH.

(1.) THE GENERAL POINT OF VIEW OF ADAM SMITH

III.XIX.6

Adam Smith says in Book I, Chapter 6, page 42: "In every society the price of every commodity finally dissolves into one or the other of these three parts (wages, profit, ground rent), or into all three of them; and in every advanced society all three of them pass more or less as component parts into the price of by far the greater part of the commodities."*39 Or, as he continues, page 63: "Wages, profit, and ground rent are the three final sources of all income as well as of all exchange value." We shall discuss further along this doctrine of Smith concerning the "component parts of the prices of commodities," or of "all exchange value."

III.XIX.7

He says furthermore: "As this is true of every single commodity individually, it must also be true of all commodities as a whole, constituting the entire annual product of the soil and the labor of every country. The total price or exchange-value of this annual

product must dissolve into the same three parts, and be distributed among the different inhabitants of the land, either as wages of their labor, or as profit of their capital, or as rent of their real estate." (Book II, chapter 2, page 190.)
III.XIX.8

After Adam Smith has thus dissolved the price of all commodities individually as well as "the total price or exchange-value...of the annual product of the soil and the labor of every country" into three sources of revenue for wage-workers, capitalists, and real estate owners, he must needs smuggle a fourth element into the problem by a circuitous route, namely the element of capital. This is accomplished by the distinction between a gross and a net income. "The gross income of all inhabitants of a large country comprises the entire annual product of their soil and their labor; the net income that portion which remains at their disposal after deducting the cost of maintenance, first of fixed, and second, of their circulating capital; or that portion which they can place in their supply for consumption, or expend for their maintenance, comfort, and pleasure, without touching their capital. Their actual wealth likewise is proportional, not to their gross, but to their net income." (Ibidem, page 190.)
III.XIX.9

We make the following comment:
III.XIX.10

(1). Adam Smith expressly deals here only with simple reproduction, not reproduction on an enlarged scale, or accumulation. He speaks only of expenses for maintaining the capital in process. The "net" income is equal to that portion of the annual product, whether of society, or of the individual capitalist, which can pass into the "fund for consumption," but the size of this fund must not encroach upon capital in process. One portion of the value of both the individual and social product, then, is dissolved neither in wages, nor in profit, nor in ground rent, but in capital.
III.XIX.11

(2). Adam Smith flees from his own theory by means of a word play, the distinction between a gross and net revenue. The individual capitalist as well as the entire capitalist class, or the so-called nation, receive in place of the consumed capital a quantity of commodities, whose value‘represented by the proportional parts of this product‘ replaces on one hand the invested capital-value and thus forms an income, or revenue, but, mark well, a capital revenue; on the other hand, portions of value which are "distributed among the different inhabitants of the land, either as wages of their labor, or as profits of their capital, or as rent of their real estate," a thing commonly called income. Hence the value of the entire product, whether of the individual capitalist, or of the whole country, yields an income for somebody; but it is on one hand an income of capital, on the other a

"revenue" different from it. In other words, the thing which is eliminated by the analysis of the commodity in its component parts is brought back through a side door, the ambiguity of the term "revenue." But only such portions of the value of a product can be taken in as previously existed in it. If the capital is to come in as revenue, capital must first have been expended.
III.XIX.12

Adam Smith says furthermore: "The lowest ordinary rate of profits must always amount to a little more than is sufficient to make good the losses incidental to every investment of capital. It is this surplus alone which represents the clear, or net, profit." (Which capitalist understands by profit necessary investment of capital?) "That which people call gross profit comprises frequently not only this surplus, but also the portion retained for such extraordinary losses." (Book I, chapter 9, page 72.) This means nothing else but that a portion of the surplus-value, considered as a part of the gross profit, must form an insurance fund for the production. This insurance fund is created by a portion of the surplus-labor, which to that extent produces capital directly, that is to say, the fund intended for reproduction. As regards the expense for the "maintenance" of the fixed capital (see the above quotations), the replacement of the consumed fixed capital by a new one is not a new investment of capital, but only a renewal of the value of the old capital. And as far as the repair of the fixed capital is concerned, which Adam Smith counts likewise among the

cost of maintenance, this expense belongs to the price of the capital advanced. The fact that the capitalist, instead of investing this all at one time, invests it gradually according to the requirements during the process of capital in service, and that he may invest it out of profits already pocketed, does not change the source of this profit. The portion of value of which it consists proves only that the laborer produces surplus-value for the insurance fund as well as for the repairing fund.
III.XIX.13

Adam Smith then tells us that he excludes from the net revenue, that is to say, from the revenue in its specific meaning, the entire fixed capital, furthermore that entire portion of the circulating capital which is required for the maintenance and repair of the fixed capital, and for its renewal; as a matter of fact, all capital not in the natural form intended for the fund for consumption.

"The entire expenditure for the maintenance of the fixed capital must evidently be excluded from the net revenue of society. Neither the raw materials by means of which the machines and tools of industry must be kept in condition nor the product of the labor required for the transformation of these raw materials into their intended form can ever constitute a portion of this revenue. The price of this labor may indeed form a portion of that revenue, as the laborers so employed may invest the entire value of their wages in

their immediate fund for consumption. But in other kinds of labor the price" (that is to say, the wages paid for this labor) "as well as the product" (in which this labor is incorporated) "enter into the fund for consumption; the price into that of the laborers, the product into that of other people, whose subsistence, comfort, and pleasure are increased by the labor of these workmen." (Book II, chapter 2, page 190, 191.)

III.XIX.14

Adam Smith here comes upon a very important distinction between the laborers employed in the immediate production of means of production and those employed in the immediate production of articles of consumption. The value of the commodities produced by the first-named contains a part which is equal to the sum of the wages, that is to say, equal to the value of the amount of capital invested in the purchase of labor-power. This value exists bodily as a certain share of the means of production produced by these laborers. The money received by them as wages is their revenue, but their labor has not produced any goods which are consumable, either for them or for others. Hence these products are not an element of that portion of the annual product which is intended for a social fund for consumption, in which a "net revenue" can alone be realized. Adam Smith forgets to add here that the same thing which applies to wages is also true for that portion of the value of the means of production,

which forms the revenue (in the first hand) of the industrial capitalist under the categories of profit and rent. These portions of value likewise exist in means of production, articles which cannot be consumed. They cannot secure out of the articles of consumption produced by the second kind of laborers a quantity corresponding to their price until they have been sold; only then can they transfer those articles to the individual fund for consumption of their owner. But so much more Adam Smith should have seen that this excludes the value of the means of production serving within the sphere of production‘the means of production which produce means of production‘a portion of value equal to the value of the constant capital employed in this sphere and excluded from the portions of value forming a revenue, not only by the natural form in which it exists, but also by its function as capital.
III.XIX.15

The statements of Adam Smith regarding the second kind of laborers‘ who produce immediately articles of consumption‘are not quite exact. He says that in this kind of labor, both the price of labor and the product go to the fund for immediate consumption, "the price" (that is to say, the money received in wages) "to the stock for the consumption of the laborers, and the product to that of other people, whose subsistence, comfort, and pleasure are increased by the labor of these workmen." But the laborer cannot consume the "price" of his labor directly, the money in which his wages are paid; he makes use

of it by buying articles of consumption with it. These may in part consist of classes of commodities produced by himself. On the other hand, his own produce may be such as goes only into the consumption of the exploiters of labor.
III.XIX.16

After Adam Smith has thus entirely excluded the fixed capital from the "net revenue" of a certain country, he continues:

"While the entire expense for maintaining the fixed capital is thus necessarily excluded from the net revenue of society, the same is not the case with the expense of maintaining the circulating capital. Of the four parts which go to make up this last named capital, money, means of subsistence, raw materials, and finished products, the last three, as we have said, are regularly taken out of it and transferred either to the fixed capital of society, or to the fund intended for immediate consumption. That portion of the consumable articles which is not employed for the maintenance of the former" (the fixed capital) "passes wholly into the latter" (the fund for immediate consumption) "and forms a part of the net revenue of society. Hence the maintenance of these three parts of the circulating capital does not diminish the net revenue of society by any other portion of the annual product than that required for maintaining the fixed capital." (Book II, chapter 2, page 192.)

III.XIX.17

This is but a tautology, to the effect that that portion of the circulating capital, which does not serve for the production of means of production, passes into that of means of consumption, in other words, passes into that part of the annual product, which is to serve as a fund for the social consumption. However, the immediately following passage is important:

"The circulating capital of society is different in this respect from that of an individual. That of an individual is wholly excluded from his net revenue, and can never form a part of it; it can consist only of his profit. But although the circulating capital of each individual goes to make up a portion of the circulating capital of the society to which he belongs, it is nevertheless not absolutely excluded for this reason from the net revenue of society, and may form a part of it. While all the commodities in the store of some small dealer must not by any means be placed in the supply for his own immediate consumption, still they may belong in the fund for consumption of other people, who, by means of a revenue secured by other funds, may regularly make good for him their value together with his profit, without thereby causing a reduction of either his or their capital." (Ibidem.)

III.XIX.18

We learn, then, the following facts from him:
III.XIX.19

(1). Just as the fixed capital, and the circulating capital required for its reproduction (he forgets the function) and maintenance, are absolutely excluded from the net revenue of the individual capitalist which can consist only of his profit, so is also the circulating capital employed in the production of means of consumption. Hence that portion of his commodity-product which reproduces his capital cannot be dissolved into portions of value which yield any revenue for him.
III.XIX.20

(2). The circulating capital of each individual capitalist constitutes a part of the circulating capital of society, the same as every individual fixed capital.
III.XIX.21

(3). The circulating capital of society, while representing only the sum of the individual circulating capitals, has a different character than the circulating capital of every individual capitalist. The circulating capital of the individual capitalist can never be a part of his own revenue; but a portion of the circulating capital of society (namely, that consisting of means of consumption) may at the same time be a portion of the revenue of society, or, as he expressed it in the preceding quotation, it must not necessarily reduce the net revenue of

society by a portion of the annual product. Indeed, that which Adam Smith here calls circulating capital, consists in the annually produced commodity-capital, which is thrown into circulation annually by the capitalists producing it. This entire annual commodity-product of theirs consists of consumable articles and, therefore, forms the fund in which the net revenue of society (including wages) is realized or expended. Instead of choosing for his illustration the commodities in the store of the small dealer, Adam Smith should have selected the masses of commodities stored away in the warehouses of the industrial capitalists.
III.XIX.22

Now if Adam Smith had summed up the snatches of thought which forced themselves upon him, first in the study of the reproduction of that which he calls fixed, then of that which he calls circulating capital, he would have arrived at the following result:
III.XIX.23

I. The annual product of society consists of two divisions; one of them comprises the means of production, the other the means of consumption. Both must be treated separately.
III.XIX.24

II. The aggregate value of the annual product consisting of means of production is divided as follows: One portion of the value represents

but the value of the means of production consumed in the creation of these means of production; it is but capital-value reappearing in a renewed form; another portion is equal to the value of the capital invested in labor-power, or equal to the sum of the wages paid by the capitalists of this sphere of production. A third portion of value, finally is the source of profits, including ground rent, of the industrial capitalists in this sphere.
III.XIX.25

The first portion of value, according to Adam Smith the reproduced portion of the fixed capital of all the individual capitals employed in this first section, is "evidently excluded and can never form a part of the net revenue," either of the individual capitalist or of society. It always serves as capital, never as a revenue. To that extent the "fixed capital" of each individual capitalist is in no way different from the fixed capital of society. But the other portions of the annual product of society consisting of means of production,‘portions of value which also exist in the aliquot parts of this mass of means of production‘form indeed revenues for all agents engaged in this production, yielding wages for the laborers, profits and ground rent for the capitalists. But so far as society is concerned, they are capital, not revenue, although the annual product of society consists only of the sums of the products of the individual capitalists belonging to it. These things are generally fit only for service as means of production by their very nature, and even those which may eventually serve as

means of consumption are intended for service as raw or auxiliary materials of new production. But they serve as such‘as capital‘not in the hands of their producers, but in those of their purchasers, namely,
III.XIX.26

III. The capitalists of the second category, the direct producers of means of consumption. These things reproduce for these capitalists the capital consumed in the production of means of consumption (so far as this capital is not converted into labor-power, so that it consists in the sum of the wages of the laborers of this second class), while this consumed capital, which now exists in the form of means of consumption in the hands of the capitalists producing them, constitutes in its turn‘from the point of view of society‘the fund intended for consumption, in which the capitalists and laborers of the first category realize their revenue.
III.XIX.27

If Adam Smith had continued his analysis to this point, then he would have lacked but little for the complete solution of the problem. He was almost on the point of solving it, for he had already observed, that certain values of one kind (means of production) of the commodity-capitals constituting the total product of society yield indeed a revenue for the laborers and capitalists engaged in production, but do not contribute anything toward the revenue of society; while another part of value of another kind (means of

consumption), although it is capital for its individual owners, that is to say, for the capitalists engaged in this sphere, is only a part of the social revenue.
III.XIX.28

So much is evident from the foregoing:
III.XIX.29

First: Although the social capital is but made up of the sum of the individual capitals, and for this reason the annual product in commodities (or the commodity-capital) equal to the sum of commodities produced by these individual capitals; and although the analysis of the value of commodities into its component parts, applicable to every individual commodity-capital, must also apply to the entire social commodity-capital, and actually does so result in the end, nevertheless the forms which these different component parts assume, when incorporated in the aggregate process of social production, differ.
III.XIX.30

Second: Even on the basis of simple reproduction, there is not merely a production of wages (variable capital) and surplus-value, but a direct production of new constant capital, although the working day consists only of two parts, one in which the laborer reproduces the variable capital, an equivalent for the purchase price of his labor-

power, and another in which he produces surplus-value (profit, rent, etc.). For the daily labor, which is expended in the reproduction of means of production‘and whose value is composed of wages and surplus-value‘realizes itself in new means of production that take the places of the constant parts of capital consumed in the production of means of consumption.

III.XIX.31

The main difficulties, the greater part of which has been solved in the preceding analyses, are not offered by a study of accumulation, but by that of simple reproduction. For this reason, Adam Smith (book II) as well as Quesnay (Tableau Economique) take their departure from simple reproduction, whenever it is a question of the movements of the annual product of society and of its reproduction by means of circulation.

II. SMITH RESOLVES EXCHANGE-VALUE INTO V PLUS S.

III.XIX.32

The dogma of Adam Smith, to the effect that exchangeable value, or the price of any commodity‘and therefore of all commodities constituting the annual product of society (since he justly assumes everywhere the existence of capitalist production)‘is made up of three component parts, or resolves itself into wages, profit, and rent, may

be reduced to the fact that the value of a commodity is equal to v plus s, that is to say, equal to the value of the advanced variable capital plus the surplus-value. And we may undertake this reduction of profit and rent to a common unit called s with the expressed permission of Adam Smith, as shown by the following quotations, in which we leave aside all minor points, especially any actual or apparent deviation from his dogma that the value of the commodities resolves itself exclusively into those elements which we call v plus s.
III.XIX.33

In manufacture: "The value which the laborers add to the material resolves itself...into two parts, one of which pays their wages, and the other the profit of their employer on the entire capital advanced by him in materials and wages." (Book I, chapter 6, page 41.) "Although the manufacturist gets his wages advanced by his master, he does not cost the latter anything in reality, since as a rule the value of these wages is preserved together with a profit, in the increased value of the object to which the labor was applied." (Book II, chapter 3, page 221). That portion of the stock which is invested "in the maintenance of productive labor...after it has served him (the employer) in the function of a capital...forms a revenue for them" (the laborers). (Book II, chapter 3, page 223.)
III.XIX.34

Adam Smith says explicitly in the chapter just quoted: "The entire annual product of the soil and the labor of each country...naturally resolves itself into two parts. One of them, and frequently the greater, is intended primarily to replace capital and to reproduce the means of subsistence, raw materials and finished products obtained from some capital; the other is intended to form a revenue either for the owner of this capital, as a profit on his capital, or for some one else, as a rent of his real estate." (Page 222.) Only a portion of the capital, so Adam Smith informed us just awhile ago, also forms a revenue for some one, namely that which is invested in the purchase of productive labor. This portion‘the variable capital‘performs first "the function of capital" for its employer and in his hands, and then it "forms a revenue" for the productive laborer himself. The capitalist transforms a portion of the value of his capital into labor-power and thereby into variable capital; it is only due to this transformation that not alone this portion of capital, but his entire capital, serve as industrial capital. The laborer‘the seller of his own labor-power‘receives its value in the form of wages. In his hands, labor-power is but a saleable commodity, a commodity whose sale keeps him alive, which is the sole source of his revenue; laborpower serves as a variable capital only in the hands of its buyer, the capitalist, and the capitalist advances its purchase price only apparently, since its value has been previously supplied to him by the laborer.
III.XIX.35

After Adam Smith has thus shown that the value of a product in manufacture is equal to v plus s (s standing for the profit of the capitalist), he tells us that, in agriculture, the laborers effect, aside from "the reproduction of a value which is equal to their own consumption and the (variable) capital employing them plus the profit of the capitalist," furthermore, "over and above the capital of the farmer and all his profit regularly the reproduction of the rent of the owner of the real estate." (Book II, chapter 5, page 243.) The fact that the rent passes into the hands of the real estate owner, is immaterial for the question under consideration. Before it can pass into his hands, it must be in those of the farmer, that is to say, of the industrial capitalist. It must form a part of the value of the product, before it can become a revenue for any one. Rent as well as profit are but component parts of surplus-value, even in the opinion of Adam Smith himself, and the productive laborer reproduces them continually together with his own wages, that is to say, with the value of the variable capital. Hence rent and profit are parts of the surplus-value s, and thus, with Adam Smith, the price of all commodities resolves itself into v plus s.
III.XIX.36

The dogma, that the price of all commodities (also of the annual product in commodities) resolves itself into wages plus profit, plus ground rent, assumes in the interspersed esoteric portion of Smith's work quite naturally the form that the value of every commodity,

hence also that of the annual social product in commodities, is equal to v plus s, or equal to the value of the capital invested in labor-power and continually reproduced by the capitalist plus the surplus-value added by the labor of the laborers.
III.XIX.37

This outcome of the analysis of Adam Smith reveals at the same time‘ see farther along‘the source of this one-sided analysis of the component parts into which the value of a commodity resolves itself. But the determination of the magnitude of these component parts and of the limit of their value has no bearing on the circumstance that they are at the same time different sources of revenue for different classes engaged in production.
III.XIX.38

Various inconsistencies are jumbled together when Adam Smith says: "Wages, profit, and ground rent are the three primary sources of all revenue as well as all exchange-value. Every other revenue is derived, in the last instance, from one of these." (Book I, chapter 6, page 48.)
III.XIX.39

(1). All members of society not directly engaged in reproduction, with or without labor, can obtain their share of the annual product of commodities‘in other words, their articles of consumption‘primarily only

out of the hands of those classes who are the first to handle the product, that is to say, productive laborers, industrial capitalists, and real estate owners. To that extent their revenues are substantially derived from wages (of the productive laborers), profit, and ground rent, and appear as indirect derivations when compared to these primary sources of revenue. But, on the other hand, the recipients of these revenues, thus indirectly derived, draw them-by grace of their social functions, for instance that of a king, priest, professor, prostitute, soldier, etc., and they may regard these functions as the primary sources of their revenue.
III.XIX.40

(2). Here the ridiculous mistake of Adam Smith reaches its climax. After having taken his departure from a correct determination of the component parts of the value of commodities and the sum of values of the product incorporated in them, and having demonstrated that these component parts form so many different sources of revenue;*40 after having in this way deducted the revenues from the value, he proceeds in the opposite way‘and this remains the ruling conception with him‘and makes of the revenues "primary sources of all exchange-value" instead of "component parts," thereby throwing the doors wide open to vulgar economy. (See, for instance, our Roscher.)

III. THE CONSTANT PORTION OF CAPITAL.

Let us now see, how Adam Smith tries to spirit away the constant portion of the value of commodities.

"In the price of corn, for instance, one portion pays the rent of the land owner." The origin of this portion of value has no more to do with the circumstance that it is paid to the land owner and forms for him a revenue in the shape of rent than the origin of the other portions of value has to do with the fact that they constitute sources of revenue as profit and wages.

"Another portion pays the wages and subsistence of the laborers" (and of the laboring cattle, as he adds) "employed in its production, and the third portion pays the profit of the capitalist farmer. These three portions seem" (they seem indeed) "to constitute either directly, or in the last instance, the entire price of corn."*41 This entire price, that is to say, the determination of its magnitude, is absolutely independent of its distribution among three kinds of people. "A fourth portion may seem necessary in order to reproduce the capital of the farmer, or the wear of his laboring cattle and of his other implements. But it must be considered that the price of any agricultural implement, for instance of a laboring horse, is in its turn composed of the above three parts: the rent of the land on which it is bred, the labor of breeding, and the profit of the farmer who advances both the rent of

this land and the wages of this labor. Hence, although the price of the corn may reproduce the price as well as the cost of maintenance of the horse, the entire price still resolves itself, directly or in the last instance, into the same three parts: ground rent, labor," (he means wages) "and profit." (Book I, chapter 6, page 42.)

III.XIX.42

This is verbatim all that Adam Smith has to say in support of his surprising doctrine. His proof consists simply in the repetition of the same contention. He admits, for instance, that the price of corn does not only consist of v plus s, but contains also the price of the means of production consumed in the production of corn, in other words, the value of a capital not invested in labor-power by the farmer. But, says he, the prices of all these means of production likewise resolve themselves into v plus s, the same as the price of corn. He forgets, however, to add in this case, that they also contain the prices of the means of production consumed in their production. He refers us from one line of production to another, and from that to a third. The contention that the entire price of commodities resolves itself "immediately" or "ultimately" into v plus s would not be a specious subterfuge in the sole case that he could demonstrate that the product in commodities, the price of which resolves itself immediately into c (price of consumed means of production) plus v plus s, is ultimately compensated by products which reproduce those "consumed

means of production" completely and which are themselves produced by the investment of mere variable capital, by a mere investment of capital in labor-power. The price of these last products would then be v plus s. And in that case the price of the first products, represented by c plus v plus s, where c stands for the constant portion of capital, could be ultimately resolved into v plus s. Adam Smith himself did not believe that he had furnished such a proof by his example of the collectors of Scotch pebbles, who, according to him, do not produce any surplus-value, but produce only their own wages, and who, in the second place, do not employ any means of production (they do, however, employ them, such as baskets, sacks, and other means of carrying the stones).
III.XIX.43

We have already seen that Adam Smith later on throws his own theory over, without, however, being conscious of his contradictions. But the source of these is found precisely in his scientific premises. The capital converted into labor produces a greater value than its own. How does it do that? It is due, says Adam Smith, to the laborers, who impregnate, during the process of production, the things on which they work with a value which forms not only an equivalent for their own purchase price, but also a surplus-value, appropriated, not by them, but by their employers (profit and rent). That is all they accomplish, and all that they can accomplish. And what is true of the industrial labor of one day, is true of the labor set in motion by the

entire capitalist class during one year. Hence the aggregate mass of the annual social product in values can resolve itself only into v plus s, into an equivalent by which the laborers reproduce the value of the capital expended for the purchase of their labor-power, and into an additional value which they must deliver over and above their own value to their employers. These two elements of value form at the same time sources of revenue for the various classes engaged in reproduction: The first is the source of wages, the revenue of the laborers; the second that of surplus-value, a portion of which is retained by the industrial capitalist in the form of profit, while another is given up by him as rent, the revenue of the real estate owners. Whence, then, should come another element of value, since the value of the annual product contains no other elements but v plus s? We are working on the basis of simple reproduction. Since the entire quantity of annual labor resolves itself into labor required for the reproduction of the value of the capital invested in labor-power, and labor required for the creation of surplus-value, where would the labor required for the production of the value of a capital not invested in labor-power come from?
III.XIX.44

The situation is as follows:
III.XIX.45

(1). Adam Smith determines the value of a commodity by the quantity of labor which the wage worker adds to the object of labor. He calls it materials of labor, since he is dealing with manufacture, which is working up products of other labor. But this does not alter the matter. The value which the laborer adds to a thing (and this "adds" is an expression of Adam Smith) is entirely independent of the fact whether or not this thing, to which value is added, had itself any value before this addition took place. The laborer creates a product of value in the form of a commodity; this, according to Adam Smith, is partly an equivalent for his wages, and this part, then, is determined by the value of his wages; according to whether his wages are high or low, he has to add more or less value in order to produce or reproduce an equivalent for his wages. On the other hand, the laborer adds more labor over and above the limit so drawn, and this constitutes the surplus value for the capitalist who employs him. Whether this surplus-value remains entirely in the hands of the capitalist or is yielded by him in portions to third persons, does not alter the qualitative fact that the additional labor of the laborer is surplus-value, not the quantity of this additional value. It is value the same as any other portion of the value of the product, but it differs from other portions by the fact that the laborer has not received any equivalent for it, nor will receive any later on, because it is appropriated by the capitalist without any equivalent. The total value of a commodity is determined by the quantity of labor expended by the laborer in its production; one portion of this total value is

determined by the fact that it is equal to the value of the wages, an equivalent for them. The second portion, the surplus-value, is, therefore, likewise determined, for it is equal to the total value of the product minus that portion which is equivalent to the wages; it is equal to the excess of the value created in the manufacture of the product over that portion which is an equivalent for the wages. III.XIX.46

(2). That which is true of a commodity produced in some individual industrial establishment by any individual laborer is true of the annual product of all lines of business together. That which is true of the day's work of some individual productive laborer is true of the entire year's work realized by the entire class of productive laborers. It "fixes" (expression of Adam Smith) in the annual product a total value determined by the quantity of the annual labor expended, and this total value resolves itself into one portion determined by that part of the annual labor which reproduces the equivalent of its annual wages, or these wages themselves; and into another portion determined by the additional labor by which the laboring class creates surplus-value for the capitalist class. The value contained in the annual product then consists of but two elements, namely the equivalent of the wages received by the laboring class, and the surplus-value annually created for the capitalist class. Now, the annual wages are the revenue of the working class, and the annual quantity of surplus-value the revenue of the capitalist class; both of them

represent the relative shares in the annual fund for consumption (this view is correct when simple reproduction is the premise) and are realized in it. There is, then, no room left anywhere for the value of the constant capital, for the reproduction of the capital serving in the form of means of production. And Adam Smith states explicitly in the introduction of his work that all portions of the value of commodities which serve as revenue coincide with the annual product of labor intended for a social fund for consumption: "In what the revenue of the people consisted generally, or what was the nature of the fund, which...supplied their annual consumption, to explain this is the purpose of these first four books." (Page 12.) And in the very first sentence of the introduction we read: "The annual labor of every nation is the fund, which supplies them originally with all the subsistence which they consume in the course of the year, and which always consist either of the immediate product of this labor, or in articles bought with this product from other nations." (Page 11.)
III.XIX.47

The first mistake of Adam Smith consists in identifying the value of the annual product with the annual product in values. The latter is only the product of labor of the current year, the former includes furthermore all elements of value consumed in the making of the annual product, but which have been produced in the preceding or even in earlier years, means of production whose value merely re-appears, but which have been neither produced nor reproduced by the

labor expended in the current year. By this mistake, Adam Smith spirits away the constant portion of the value of the annual product. His mistake rests on another error in his fundamental conception: He does not distinguish the two-fold nature of labor itself, of labor which creates exchange-value by the expenditure of labor-power, and labor which creates articles of use (use-values) as a concrete, useful, activity. The total quantity of the commodities made annually, in other words, the total annual product, is the product of the useful labor active during the the past year; all these commodities exist only because socially employed labor has been spent in a systematized network of many kinds of useful labor; it is due to this fact alone that the value of the means of production consumed in their production, re-appearing in a new natural form, is contained in their total value. The total annual product, then, is the result of the useful labor expended during the year; but only a portion of the value of the annual product has been created during the year; this portion is the annual product in values, in which the quantity of labor set in motion during the year itself is represented.
III.XIX.48

Hence, if Adam Smith says in the just cited passage: "The annual labor of every nation is the fund, which supplies them originally with all the subsistence which they consume in the course of the year, etc.," he places himself one-sidedly upon the standpoint of mere useful labor, which has indeed given all these means of subsistence

their consumable form. But he forgets that this was impossible without the assistance of instruments and materials of labor supplied by former years, and that, therefore, the "annual labor," so far as it has created any values, did not create all the value of the products finished by it; that the product in values is smaller than the value of the products.

III.XIX.49

While we cannot reproach Adam Smith for going in this analysis no farther than all his successors (although a step toward a correct solution is already found among the physiocrats), he loses himself, on the other hand, in a chaos further along, mainly because his "esoteric" conception of the value of commodities in general is constantly vitiated by exoteric ideas, which on the whole prevail with him, while his scientific instinct permits his esoteric conception to reappear from time to time.

IV. CAPITAL AND REVENUE IN ADAM SMITH.

III.XIX.50

That portion of the value of every commodity (and therefore also of the annual product) which is but an equivalent of the wages is equal to the capital advanced by the capitalist for labor-power, in other words, equal to the variable portion of the total capital advanced. The

capitalist recovers this portion of the value of his advanced capital through a portion of the value of a commodity newly supplied by the wage laborer. Whether the variable capital is advanced in such a way that the capitalist pays the laborer his share in a product which is not yet ready for sale, or which, though ready, has not yet been sold by the capitalist, or whether he pays him with money obtained by the sale of commodities previously supplied by the laborer, or whether he has drawn this money in advance by means of credit‘in all these cases the capitalist expends variable capital, which passes into the hands of the laborer in the form of money, and at the same time he possesses the equivalent of this value of his capital in that portion of the value of his commodities by which the laborer reproduces his share of its total value, in other words, by which he reproduces his own wages. Instead of giving him this portion of the value in its natural form, that of his own product, the capitalist pays him in money. The capitalist then holds the variable portion of his advanced capital in the form of commodities, while the laborer has received the equivalent for his sold labor-power in the form of money.
III.XIX.51

Now while that portion of the capital advanced by the capitalists, which has been converted by the purchase of labor-power into variable capital, serves in the process of production itself as laboring power and is produced as a new value, or reproduced, by the expenditure of this force, in the form of commodities,‘hence a

reproduction, or new production of capital‘the laborer spends the value or price of his sold labor-power in means of subsistence, in means for the reproduction of his labor-power. A quantity of money equal to the variable capital forms his revenue, which lasts only so long as he can sell his labor-power to the capitalist.
III.XIX.52

The commodity of the wage laborer‘his labor-power‘serves as a commodity only to the extent that it is incorporated in the capital of the capitalist and acts as capital; on the other hand, the capital expended by the capitalist as money-capital in the purchase of labor-power serves as a revenue in the hands of the seller of labor-power, the wage laborer.
III.XIX.53

Various processes of circulation and production intermingle here, which Adam Smith does not clearly distinguish.
III.XIX.54

First: Processes belonging to circulation. The laborer sells his commodity‘labor-power‘to the capitalist; the money with which the capitalist buys it is from his point of view money invested for gain, in other words, money-capital; it is not spent, but advanced. (This is the real meaning of "advance"‘avance in the language of the physiocrats‘ no matter where the capitalist gets the money. Every value which the

capitalist pays out for the purposes of the productive process, is advanced from his point of view, regardless of whether this takes place before or after the fact; it is advanced for the process of production.) The same takes place here as in every other sale of commodities: The seller gives away a use-value (in this case his labor-power) and receives its value (realizes its price) in money; the buyer gives away his money and receives in turn the commodity itself‘ in this case labor-power.
III.XIX.55

Secondly: In the process of production, the purchased labor-power now forms a part of the acting capital, and the laborer himself serves here merely as one particular natural form of this capital, distinguished from the elements existing in the natural form of means of production. During the process, the laborer adds value to the means of production which he converts into products, by expending labor-power to the amount of his wages (without surplus-value); he reproduces for the capitalist that portion of his capital in the form of commodities which has been, or has to be, advanced for wages; hence he produces for the capitalist that capital which he can "advance" once more for the purchase of labor-power.
III.XIX.56

Thirdly: In the sale of the commodities, one portion of their selling price reproduces the variable capital advanced by the capitalist,

whereby he, on the one hand, is enabled to buy more labor-power, and the laborer, on the other hand, to sell more.
III.XIX.57

In all purchases and sales of commodities‘so far as these transactions are merely regarded by themselves,‘it is quite immaterial what becomes of the money in the hands of the seller received for his commodities, and what becomes of the article of use in the hands of the buyer received in exchange for this money. Hence, so far as the mere process of circulation is concerned, it is quite immaterial that the labor-power bought by the capitalist reproduces the value of capital for him, and that, on the other hand, the money received by the laborer as a purchase-price of his labor-power serves as his revenue. The magnitude of the value of the commodity of the laborer, his labor-power, is not affected either by serving as a revenue for him or by reproducing, through its use, on the part of the buyer, the value of the capital of the buyer.
III.XIX.58

Since the value of the labor-power‘that is to say, the adequate selling price of this commodity‘is determined by the quantity of labor required for its reproduction, and this quantity of labor itself is here determined by that required for the necessary subsistence of the laborer, the wages become a revenue on which the laborer has to live.
III.XIX.59

It is entirely wrong, when Adam Smith says (page 223): "That portion of capital which is invested in the maintenance of productive labor...after it has served him" (the capitalist) "in the function of a capital...forms a revenue for them" (the laborers). The money with which the capitalist pays for the labor-power purchased by him, "serves him in the function of a capital," to the extent that he thereby incorporates labor-power in the material elements of his capital and thus enables his capital to serve as productive capital. We make this distinction: The labor-power is a commodity, not a capital, in the hands of the laborer, and it constitutes for him a revenue, so long as he can repeat its sale; it serves as capital, after its sale, in the hands of the capitalist, during the process of production itself. That which here serves twice is labor-power; as a commodity which is sold at its value, in the hands of the laborer; as a power creating exchange-values and use-values, in the hands of the capitalist who has bought it. But the money which the laborer receives from the capitalist is not given to him until after he has given the capitalist the use of his labor-power, after it has already been realized in the value of the product of labor. The capitalist holds this value in his hands, before he pays for it. Hence it is not the money which serves twice here; first, as the money-form of the variable capital, and then as wages. It is labor-power which has served twice; first, as a commodity in the sale of labor-power (in stipulating the amount of wages to be paid, the money serves merely as an ideal measure of value and need

not even be in the hands of the capitalist); secondly, in the process of production, in which it serves as capital, in other words, as an element in the hands of the capitalist creating exchange-value and use-values. Labor-power first supplies, in the form of commodities, the equivalent which is to be paid to the laborer, and then only is it paid by the capitalist to the laborer in money. In other words, the laborer himself creates the fund out of which the capitalist pays him. But this is not all.
III.XIX.60

The money, which the laborer receives, is spent by him for the maintenance of his labor-power, or‘looking upon the capitalist class and working class as an aggregate mass‘is spent to preserve for the capitalist an instrument by means of which alone he can remain a capitalist.
III.XIX.61

The continuous purchase and sale of labor-power, then, perpetuates on one hand labor-power as an element of capital, by the the grace of which it appears as the creator of commodities, use-values having an exchange-value, by means of which, furthermore, that portion of capital which buys labor-power is continually reproduced by its own product, so that the laborer himself creates the fund of capital out of which he is paid. On the other hand, the sale of labor-power becomes the ever renewed source for the maintenance of the laborer and

makes of his labor-power that faculty through which he secures his revenue, by which he lives. Revenue in this case signifies nothing else but an appropriation of values by means of ever repeated sales of a commodity (labor-power), these values serving merely for the continual reproduction of the commodity to be sold. And to this extent Smith is right when he says that that portion of the value of the laborer's product, for which the capitalist pays him an equivalent in the form of wages, becomes a source of revenue for the laborer. But this does not alter the nature or magnitude of this portion of value of the commodity any more than the value of the means of production is changed by the fact that they serve as capital-values, or the nature and magnitude of a straight line are changed by the fact that it serves as a basis for some triangle or as a diameter of some ellipse. The value of labor-power remains quite as independent as that of those means of production. This portion of the value of a commodity neither consists of a revenue as one of its independent constituent factors, nor does it resolve itself into revenue. Because this value, ever renewed by the laborer, constitutes a source of revenue for him, that is no reason why his revenue, on the other hand, should be an element of the new values produced by him. The magnitude of his share in the new value created by him determines the volume of the value of his revenue, not vice versa. The fact that this portion of the new value forms a revenue for him indicates merely what becomes of it, shows the character of its employment, and has no more to do with its formation than with that of any other value. The fact that my

receipts are ten dollars a week changes nothing in the nature of the value of the ten dollars nor in the magnitude of their value. As in the case of every other commodity so in that of labor-power its value is determined by the labor necessary for its reproduction; that the quantity of this labor is determined by the value of the necessary subsistence of the laborer, in other words, that it is equal to the labor required for the reproduction of his own life's conditions, is peculiar for this commodity (labor-power), but no more peculiar than the fact that the value of laboring cattle is determined by the subsistence necessary to produce this subsistence.
III.XIX.62

But it is this category of "revenue" which is to blame for all the confusion in Adam Smith over this question. The various kinds of revenue constitute with him the "component parts" of the annually produced new values of commodities, while, vice versa, the two portions into which these values resolve themselves for the capitalist form sources of revenue‘namely the equivalent of his variable capital advanced for the purchase of labor-power and the other portion of value, the surplus-value, which likewise belongs to him but did not cost him anything. The equivalent of the variable capital is once more advanced for labor-power and to that extent forms a revenue for the laborer in the shape of wages; the other portion, the surplus-value, which does not reproduce any advance of capital for the capitalist, may be spent by him in articles of consumption (whether necessary or

luxuries), it may be consumed by him as a revenue, instead of forming capital-value of some kind. The first condition of this revenue is the value of the commodities itself, and its component parts differ from the point of view of the capitalist only to the extent that they are an equivalent for, or an excess over the variable portion of the value of the capital advanced by him. Both of them consist of nothing but labor expended and materialized during the production of commodities. They consist of an expenditure, not of an income or revenue‘an expenditure of labor.
III.XIX.63

After this reversion of facts, by which a revenue becomes the source of the value of commodities instead of the value of commodities being the source of revenue, the value of commodities has the appearance of being "composed" of various kinds of revenue; these revenues are determined independently of one another, and the total value of commodities is determined by the addition of the values of these revenues. But now the question is: How is the value of each of these revenues determined, which are supposed to be the sources of the values of commodities? In the case of wages it is done, for wages are the value of the commodity labor-power, and this is determined (the same as that of all other commodities) by the labor required for its reproduction. But surplus-value, or as Adam Smith has it, profit and ground rent, how are they determined? Here Adam Smith has but empty phrases to offer. He either represents wages and surplus-value

(or wages and profit) as component parts of the value, or price, of commodities, or, sometimes in the same breath, as component parts into which the price of commodities resolves itself; but this means precisely the reverse of his contention and makes of the value of commodities the primary thing, different parts of which fall as different revenues to the share of different persons engaged in the productive process. This is by no means identical with the composition of value of these three "component parts." If I determine the magnitude of three different straight lines independently and then form a fourth straight line out of these three lines as "component parts" equal to their sum, it is by no means the same process as if I have some given straight line before me and "resolve" it, so to say, into three different parts for some purpose. In the first case, the magnitude of the line changes throughout with the magnitude of the three lines whose sum it is; in the second case, the magnitude of three parts of the line is from the outset limited by the fact that they are parts of a line of given magnitude.
III.XIX.64

However, if we keep in mind that part of the analysis of Smith which is correct, namely, that the value newly created by the annual labor and contained in the annual social product in commodities (the same as in every individual commodity, or every daily, weekly, etc., product) is equal to the value of the variable capital advanced (in other words, equal to the value intended for the purchase of new labor-power) plus

the surplus-value which the capitalist can realize in means of his individual consumption‘simple reproduction being assumed, and other circumstances remaining the same, if we keep furthermore in mind that Adam Smith confounds labor which creates values and is an expenditure of labor-power with labor which creates articles of use and is expended in a useful, appropriate, manner, then the entire conception amounts to this: The value of every commodity is the product of labor; hence this is also true of the value of the product of annual labor, or of the value of the annual product of society in commodities. But since all labor resolves itself, (1), into necessary labor time, in which the laborer reproduces merely an equivalent for the capital advanced in the purchase of his labor-power, and, (2), into surplus-labor, by which he supplies the capitalist with a value for which the latter does not give any equivalent, in other words, a surplus-value, it follows that all value of commodities can resolve itself only into these two component parts, so that ultimately it forms a revenue for the laboring class in the form of wages, and for the capitalist class in the form of surplus-value. As for the constant value of the capital, in other words, the value of the means of production consumed in the production of the annual product, it cannot be explained how this value gets into that of the new product (unless we accept the phrase that the capitalist charges the buyer with it in the sale of his goods), but ultimately, seeing that the means of production are themselves products of labor, this portion of value can consist only of an equivalent for variable capital and surplus-value, of a

product of necessary labor and surplus-labor. The fact that the values of these means of production serve in the hands of their employers as capital-values does not prevent them from resolving themselves "originally," even though in some other hands, if we go to the bottom of the matter, and at some previous time, into the same two portions of value, hence into two different sources of revenue.
III.XIX.65

One point is correct in this conception, namely, that the matter has a different aspect from the point of view of the movement of social capital, in other words, of the totality of individual capitals, that it has from the standpoint of the individual capital, considered by itself, or from the standpoint of each individual capitalist. For these, the value of commodities resolves itself, (1), into a constant element (a fourth one, as Adam Smith says), and (2), into the sum of wages and surplus-value, or wages, profit, and ground rent. But from the point of view of society, the fourth element of Adam Smith, the constant value of capital, disappears.

(5). RECAPITULATION.

III.XIX.66

The absurd formula that the three revenues, wages, profit, and ground rent, form the three "component parts" of the value of commodities,

is due in the case of Adam Smith to the more plausible idea that the value of commodities resolves itself into these three parts. However, this is likewise incorrect, even granted that the value of commodities is only divisible into an equivalent of the consumed labor-power and surplus-value created by it. But the mistake rests here again on a deeper and truer basis. The capitalist mode of production is conditioned on the fact that the productive laborer sells his own labor-power, as a commodity, to the capitalist, in whose hands it then serves merely as an element of his productive capital. This transaction, taking place in the circulation,'the sale and purchase of labor-power' does not only inaugurate the process of production, but also determines implicitly its specific character. The production of a use-value, and even that of a commodity (for this can be done eventually by independent productive laborers), is here only a means of producing absolute or relative surplus-value for a capitalist. For this reason we have seen in the analysis of the process of production, that the production of absolute and relative surplus-value determines, (1), the duration of the daily labor-process, (2), the entire social and technical formation of the capitalist process of production. Within this process, there is realized the distinction between the mere conservation of value (the value of the constant capital), the actual reproduction of advanced value (an equivalent of labor-power), and the production of surplus-value, that is to say, of value for which the capitalist has neither advanced an equivalent nor will advance one subsequently.

III.XIX.67

The appropriation of surplus-value‘a value in excess of the equivalent advanced by the capitalist‘although it is inaugurated by the purchase and sale of labor-power, is a transaction taking place within the process of production itself, and forms an essential part of it.
III.XIX.68

The introductory transaction taking place in the circulation, the purchase and sale of labor-power, is itself conditioned on a distribution of the elements of production, which is the premise and prelude of the distribution of the social products, and implies the separation of labor-power, as a commodity of the laborer, from the means of production, as the property of non-laborers.
III.XIX.69

However, this appropriation of surplus-value, or this separation of the production of values into a reproduction of advanced values and a production of new values (surplus-values) which do not offset any equivalent, does not alter in any way the substance of value itself nor the nature of the production of values. The substance of value is and remains nothing but expended labor-power‘labor independent of the specific, useful, character of this labor‘and the production of values is nothing but the process of this expenditure. A serf, for instance, expends his labor-power for six days, labors for six days, and the fact

of this expenditure is not altered by the circumstances, that he may be working three days for himself, on his own field, and three days for his lord, on the field of the latter. Both his voluntary labor for himself and his compulsory labor for his lord are equally labor; so far as this labor is considered with reference to the values, or even the useful articles, created by it, there is no difference in his six days of labor. The difference refers merely to the distinct conditions by which the expenditure of his labor-power during each half of his labor-time of six days is affected. The same applies to the necessary and surplus-labor of the wage worker.
III.XIX.70

The process of production ends in a commodity. The fact that labor-power has been expended in its creation now is manifest in its attribute of value; the magnitude of this value is measured by the quantity of labor expended in it; the value of a commodity resolves itself into nothing else and is not composed of anything else. If I have drawn a straight line of definite length, I have "produced" a straight line (true, only symbolically, as I know beforehand) by means of a certain mode of drawing which is determined by certain laws independent of myself. If I divide this line into three sections (which may correspond to a certain problem), every one of these sections remains a straight line, and the entire line, whose sections they are, does not resolve itself, by this division, into anything different from a straight line, for instance, a curve of some kind. Neither can I divide

a line of a given magnitude in such a way, that the sum of its divisions is greater than the undivided line itself; hence the magnitude of the undivided line is not determined by any arbitrary division of its parts. Vice versa, the relative magnitudes of these divisions are limited from the outset by the size of the line whose parts they are.
III.XIX.71

A commodity produced by a capitalist does not differ in itself from that produced by an independent laborer, or by a laboring commune, or by slaves. But in the present case, the entire product of labor as well as its value belong to the capitalist. Like every other producer, he has to convert his commodity by sale into money, before he can manipulate it further; he must convert it into the form of the universal equivalent.
III.XIX.72

Let us look at the product in commodities before it is converted into money. It belongs wholly to the capitalist. On the other hand, as a useful product of labor, a use-value, it is entirely the product of a past labor-process. Not so its value. One portion of this value is but the value of means of production consumed in the production of the commodities and re-appearing in a new form; this value has not been produced during the process of production of this commodity; for the means of production possessed this value before this process of production, independently of it; they entered into this process as the

bearers of their value; it is only the external form of this value which has been renewed and changed. This portion of the value of the commodity serves the capitalist as an equivalent of the constant value of the capital advanced by him and consumed in the production of the commodity. It existed previously in the form of means of production; it exists now as a component part of the value of the newly-produced commodity. As soon as this commodity has been turned into money, the value then existing in the form of money must be reconverted into means of production, into its original form determined by the process of production and its function in it. Nothing is altered in the character of the value of a commodity by the function of this value as capital.
III.XIX.73

A second portion of the value of a commodity is the value of the labor-power which the wage-worker sells to the capitalist. It is determined, the same as that of the means of production, independently of the process of production into which labor-power is to enter, and it is fixed in a transaction of the circulation, the purchase and sale of labor-power, before it goes to the process of production. By means of his function‘the expenditure of labor-power‘ the wage-laborer produces a value of the commodity equal to the value which the capitalist has to pay him for the use of his labor-power. He gives this value to the capitalist in commodities, and is paid for it in money. The fact that this portion of the value of

commodities is for the capitalist but an equivalent for the capital which he has to advance in wages does not alter in any way the truth that it is a value of commodities newly created during the process of production and consisting of nothing but past expenditure of labor, the same as the surplus-value. Neither is this truth affected by the fact that the value paid by the capitalist to the laborer assumes the form of a revenue for the laborer, and that not only labor-power is continually reproduced thereby, but also the class of wage-laborers itself, and thus the basis of the entire capitalist production.
III.XIX.74

However, the sum of these two portions of value does not constitute all there is to the value of commodities. There remains an excess over both of them, the surplus-value. This, like that portion of value which reproduces the variable capital advanced in wages, is a value newly created by the laborer during the process of production‘ materialized labor. But it does not cost the owner of the entire product, the capitalist, anything. This circumstance permits the capitalist to consume the surplus-value entirely as his revenue, unless he has to give up some portions of it to other claimants‘such as ground rent to land owners, in which case such portions constitute a revenue of third persons. This same circumstance was also the compelling motive, which induced the capitalist to engage in the first place in the manufacture of commodities. But neither his original

benevolent intention of securing some surplus-value, nor its subsequent expenditure as revenue, by him or others, affect the surplus-value as such. They do not impair the fact that it is coagulated, unpaid, labor, nor the magnitude of this surplus-value, things which are determined by entirely different conditions.
III.XIX.75

However, if Adam Smith wanted to occupy himself, as he did, with an analysis of the role of different constituent parts of value in the total process of reproduction, even while he was investigating the question of the value of commodities, then it was evident that, while some particular portions of value served as a revenue, others served just as continually as capital‘and, according to his logic, these would likewise have to be regarded as constituent parts of the value of commodities, or parts into which this value resolves itself.
III.XIX.76

Adam Smith identifies the production of commodities in general with capitalist production; the means of production are to him from the outset "capital," labor is wage-labor, and therefore "the number of the useful and productive laborers is always...proportional to the quantity of capital stock which is employed in setting them to work." (Introduction, page 12.) In short, the various elements of the productive process‘both objective and subjective ones‘appear from the first with the masks characteristic of the process of capitalist

production. The analysis of the value of commodities, therefore, coincides with the reflection, to what extent this value is, on the one hand, a mere equivalent for invested capital, and, on the other, to what extent it forms "free" value, that is to say, value not reproducing any advance of capital, or surplus-value. The proportions of value compared from this point of view transform themselves clandestinely into its independent "component parts," and finally into the "sources of all value." A further consequence of this method is the alternate composition or dissolution of the value of commodities into revenues of various kinds, so that the revenues do not consist of values of commodities, but rather the value of commodities consists of revenues. But the fact that the value of a commodity may serve as a revenue for this or that man does not change the nature of value as such any more than the fact that the value of a commodity as such, or of money as such, may serve as capital changes their nature. The commodity with which Adam Smith is dealing represents from the outset a commodity-capital (which consists of the value of the capital consumed in production plus a surplus-value), it is a commodity produced by capitalist methods, a result of the capitalist process of production. It would have been necessary, then, to analyze first this process, and this would have implied an analysis of the process of self-expansion and of the formation of value, which it includes. Since this process is in its turn conditioned on the circulation of commodities, its description requires also a previous and independent analysis of a commodity. However, even where Adam Smith hits

"esoterically" upon the correct thing in a haphazard way, he refers to the formation of values only in the analysis of commodities, that is to say, in the analysis of commodity-capital.

III. THE ECONOMISTS AFTER SMITH.*42

III.XIX.77

Ricardo reproduces the theory of Smith almost verbatim: "It is agreed that all products of a certain country are consumed, but it makes the greatest imaginable difference, whether they are consumed by those who reproduce another value, or by those who do not. When we say that revenue is saved up and added to the capital, we mean that the portion of revenue added to the capital is consumed by productive laborers, instead of unproductive ones." (Principles, Page 163.)
III.XIX.78

In fact, Ricardo fully accepted the theory of Adam Smith concerning the separation of the price of commodities into wages and surplus-value (or variable capital and surplus-value). The points in which he differs from him are, 1) the composition of the surplus-value; Ricardo eliminates ground rent as one of its necessary elements; 2), Ricardo starts out from the price of commodities and dissects it into these component parts. In other words, the magnitude of value is his point of departure. The sum of its parts is assumed as given, it is the

starting point, while Adam Smith frequently subverts this order and proceeds contrary to his deeper insight, by producing the quantity of value subsequently by an addition of its component parts.
III.XIX.79

Ramsay makes the following remark against Ricardo: "Ricardo forgets that the total product is not only divided into wages and profits, but that a portion is also required for the reproduction of the fixed capital." (An Essay on the Distribution of Wealth. Edinburgh, 1836, page 174.) Ramsay means by fixed capital the same thing which I call constant capital, for he says on page 53: "Fixed capital exists in a form in which it contributes toward the production of the commodity in process of formation, but not toward the maintenance of laborers."
III.XIX.80

Adam Smith refuses to accept the logical outcome of his dissolution of the value of commodities, and therefore of the value of the annual product of social labor, into wages and surplus-value, or into mere revenue. This logical outcome would be that the entire annual product might be consumed in that case. It is never the original thinkers that draw the absurd conclusions. They leave that to the Says and Mac-Cullochs.
III.XIX.81

Say takes the matter indeed easy enough. That which is an advance of capital for one, is, or was, a revenue and net product for another. The difference between the gross and the net product is purely subjective, "and thus the total value of all products in a society is divided as revenue." (Say, Traité d'Economie Politique, 1817, II, page 69.) "The total value of every product is composed of the profits of the land owners, the capitalists, and the industrious people (wages figure here as profits des industrieux!) who have contributed toward its production. This makes the revenue of society equal to the gross value produced, not equal to the net products of the soil, as was claimed by a sect of economists" (the physiocrats). (Page 63.)
III.XIX.82

Among others, Proudhon has appropriated this discovery of Say.
III.XIX.83

Storch, however, who likewise accepts the doctrine of Smith in principle, finds that Say's application of it does not hold water. "If it is admitted, that the revenue of a nation is equal to its gross product, so that no capital" (that is to say, no constant capital) "is to be deducted, then it must also be admitted that this nation may consume unproductively the entire value of its annual product, without in the least reducing its future revenue.... The products which represent the" (constant) "capital of a nation are not consumable." (Storch,

Considérations sur la nature du revenu national. Paris, 1824, page 150.)
III.XIX.84

However, Storch forgot to tell us how the existence of this constant portion of capital agrees with the analysis of prices by Smith, which he has accepted, and according to which the value of commodities consists only of wages and surplus-value, but not of any constant capital. He realizes only through Say that this analysis of prices leads to absurd results, and his own opinion of it is "that it is impossible to dissolve the necessary price into its simplest elements." (Cours d' Economie Politique, Petersburg, 1815, II, page 140.)
III.XIX.85

Sismondi, who occupies himself especially with the relation of capital and revenue, and makes the peculiar formulation of this relation the specific difference of his Nouveaux Principes, did not say one scientific word, did not contribute one atom toward a clarification of this problem.
III.XIX.86

Barton, Ramsay and Cherbuliez attempted to surpass the formulation of Smith. They failed, because they conceive the problem in a onesided way, by not making clear the distinction of constant and variable capital-value from fixed and circulating capital.

III.XIX.87

John Stuart Mill likewise reproduces, with his usual pomposity, the doctrine handed down by Adam Smith to his followers.
III.XIX.88

As a result, the Smithian confusion of thought persists to this hour, and his dogma is one of the orthodox articles of faith of political economy.

Notes for this chapter

36.
Beginning of manuscript VIII.
37.
"Capital," volume I, page 647, footnote.
38.
Some physiocrats had paved the way for him even here, especially Turgot. This author uses more frequently than Quesnay and the other physiocrats the term capital instead of avances and identifies still more the avances or capital of the manufacturers with those of the capitalist farmers. For instance: "Like these (the manufacturing entrepreneurs), the capitalist farmers must secure, over and above the return of their capitals, etc." (Turgot, Oeuvres, Daire edition, Paris, 1844, vol. I, page 40.)

39.

In order that the reader may not be in doubt as to the meaning of the phrase "the price of by far the greater part of the commodities," the following lines may show how Adam Smith himself explains it. For instance, no rent passes into the price of sea fish, only wages and profit; only wages pass into the price of Scotch pebbles. He says: "In some parts of Scotland poor people make it their business to gather on the sea shore the varicolored pebbles, known as Scotch pebbles. The price which the stone cutters pay for them consists only of their wages, as neither ground rent nor profit constitute any part of it."

40.

I reproduce this sentence verbatim from the manuscript, although it seems to contradict, in its present connection, both the preceding and the following statements. This apparent contradiction is solved farther along in (4). Capital and Revenue in Adam Smith.‘F. E.

41.

We do not make anything of the fact that Adam Smith was here particularly unlucky in the choice of his example. The value of the corn resolves itself into wages, profit, and rent only, because the food consumed by the laboring cattle is regarded as wages, and the laboring cattle as laborers, so that, on the other hand, the wage laborer also appears in the role of the laboring cattle. (Note added from manuscript II.)

42.

From here to the end of the chapter, an extract from manuscript II is presented.

Part III,

Volume II Chapter XX SIMPLE REPRODUCTION.

I. THE FORMULATION OF THE QUESTION.

III.XX.1

If we study the annual function of social capital*43‘of the total capital whose fractional parts are the individual capitals, the movements of which are simultaneously their individual movements and links in the movements of the total capital‘and its results, that is to say, if we study the product in commodities put forth by society during the year, then it must become apparent how the process of reproduction of the social capital proceeds, what characteristics distinguish this process of reproduction from that of an individual capital, and what characteristics are common to both. The annual product includes those portions of the social product which reproduce capital, the social reproduction, as well as those which go to the fund for consumption, which are consumed by capitalists and laborers, in other words, productive and individual consumption. It comprises the reproduction (maintenance) of

the capitalist and working classes, and thus the reproduction of the capitalist character of the entire process of production.
III.XX.2

It is evidently the circulation formula

equation

which we have to analyze, and the consumption necessarily plays a role in it. For the point of departure, C' equal to C plus c, the commodity-capital, comprises the constant and variable capital as well as the surplus-value. Its movements, therefore, include both the individual and productive consumption. In the cycles M‘C...P...C'‘M', and P...C'‘M''C...P, the movement of the capital is the starting and finishing point. And this implies consumption, for the commodity, the product, must be sold. When these premises are accepted, it is immaterial for the movement of the individual capitals, what becomes of these commodities subsequently. On the other hand, in the movement of C'...C' the conditions of social reproduction are precisely different in this point, since it must be shown what becomes of every portion of value of this total product of C'. In this case, the total process of reproduction includes the process of consumption by way of the circulation quite as much as the process of reproduction of the capital itself.
III.XX.3

This process of reproduction, now, must be considered for the purposes of our study both from the point of view of the reproduction of the value and of the substance of the individual component parts of C'. We cannot rest satisfied any longer, as we did in the analysis of the value of the product of the individual capital, with the assumption that the individual capitalist must first convert the component parts of his capital into money by the sale of his commodities, before he is able to reconvert it into productive capital by renewed purchase of the elements of production in the commodity market. Those elements of production, so far as they consist of things, constitute as much a portion of the social capital as the individual finished product, which is exchanged for them and reproduced by them. On the other hand, the movement of that portion of the social product in commodities, which is consumed by the laborer in the expenditure of his labor-power, and by the capitalist in spending his surplus-value, does not only form an integral part of the movement of the total product, but also intermingles with the movements of the individual capitals, and this process cannot be explained by merely assuming it.
III.XX.4

The question which we have to face immediately, is this: How is the value of the capital consumed in production re-produced out of the annual product, and how does the movement of this reproduction

intermingle with the consumption of surplus-value by the capitalists and of wages by the laborers? We are dealing, then, first with reproduction on a simple scale. It is furthermore assumed that products are exchanged at their value, and that no revolution in the value of the elements of productive capital takes place. Should there be any divergence of prices from values, this would not exert any influence on the movements of social capital. On the whole, there is the same exchange of the same quantity of products, although the individual capitalists would be taking shares in it which would no longer be proportional to their respective advances and to the quantities of value produced by each one. As for revolutions of value, they do not alter anything in the proportions of the elements of value of the various component parts of the total annual product, provided they are universally and uniformly distributed. To the extent that they are limited and unevenly distributed, they are disturbances, which, in the first place, can be understood only as divergences from equal proportions of value; and, in the second place, given the law according to which one portion of the annual product reproduces constant, and another variable capital, a revolution either in the value of the constant or variable capital would not alter this law. It would change merely the relative magnitude of the portions of value which serve in the one or the other capacity, seeing that other values would have taken the places of the original ones.

III.XX.5

So long as we looked upon the production of value and the value of products from the point of view of individual capital, it was immaterial for the analysis which was the natural form of the product in commodities, whether it was, for instance that of a machine, of corn, or of looking glasses. It was always but a matter of illustration, and any line of production could serve that purpose. What we had to consider was the immediate process of production itself, which presented itself at every point as the process of some individual capital. So far as reproduction was concerned, it was sufficient to assume that that portion of the product in commodities, which represented capital in the sphere of circulation, found an opportunity to reconvert itself into its elements of production and thus into its form of productive capital. It likewise sufficed to assume that both the laborer and the capitalist found in the market those commodities for which they spend their wages and surplus-value. This merely formal manner of presentation does not suffice in the study of the total social capital and of the value of its products. The reconversion of one portion of the value of the product into capital, the passing of another portion into the individual consumption of the capitalist and working classes, form a movement within the value of the product itself which is created by the total capital; and this movement is not only a reproduction of value, but also of material, and is, therefore, as much conditioned on the relative proportions of the elements of value of the total social product as on its use-value, its material substance.*44

Simple reproduction on the same scale appears as an abstraction; inasmuch as the absence of all accumulation or reproduction on an enlarged scale is an irrelevant assumption in capitalist society, and, on the other hand, conditions of production do not remain exactly the same in different years (as was assumed). The assumption is that a social capital of a given magnitude produces the same quantity of value in commodities this year as last, and supplies the same quantity of wants, although the forms of the commodities may be changed in the process of reproduction. However, while accumulation does take place, simple reproduction is always a part of it and may, therefore, be studied in itself, being an actual factor in accumulation. The value of the annual product may decrease, although the quantity of use-values may remain the same; or, the value may remain the same, although the quantity of the use-values may decrease; or, the quantity of value and of use-values may decrease simultaneously. All this amounts to saying that reproduction takes place either under more favorable conditions than before, or under more difficult ones, which may result in an imperfect reproduction. But all this can refer only to the quantitative side of the various elements of reproduction, not to the role which they are playing as a reproducing capital, or as a reproduced revenue, in the entire process.

II. THE TWO DEPARTMENTS OF SOCIAL PRODUCTION.*45

III.XX.7

The total product, and therefore the total production, of society, is divided into two great sections:

1. Means of Production, commodities having a form in which they must, or at least may, pass over into productive consumption.

II. Means of Consumption, commodities having a form in which they pass into the individual consumption of the capitalist and working classes.

III.XX.8

In each of these two departments, all the various lines of production belonging to them form one single great line of production, the one that of the means of production, the other that of articles of consumption. The aggregate capital invested in each of these two departments of production constitutes a separate section of the entire social capital.

III.XX.9

In each department, the capital consists of two parts:

(1) Variable Capital. This capital, so far as its value is concerned, is equal to the value of the social labor-power employed in this line of production, in other words equal to the sum of the wages paid for this labor-power. So far as its substance is concerned, it consists of the active labor-power itself, that is to say, of the living labor set in motion by this value of capital.

(2) Constant Capital. This is the value of all the means of production employed in this line. These, again, are divided into fixed capital, such as machines, instruments of labor, buildings, laboring animals, etc., and circulating capital, such as materials of production, raw and auxiliary materials, half-wrought articles, etc.

III.XX.10

The value of the total annual product created with the capital of each of the two great departments of production consists of one portion representing the constant capital c consumed in the process of production and transferred to the product, and of another portion added by the entire labor of the year. This latter portion, again, consists of one part re-producing the advanced variable capital v, and of another representing an excess over the variable capital, the surplus-value s. And just as the value of every individual commodity, so that of the entire annual product of each department consists of c plus v plus s.

III.XX.11

The portion c of the value, representing the constant capital consumed in production, is not identical with the value of the constant capital invested in production. It is true that the materials of production are entirely consumed and their values completely transferred to the product. But of the invested fixed capital, only a portion is consumed and its value transferred to the product. Another portion of the fixed capital, such as machines, buildings, etc., continues to exist and serve the same as before, merely depreciating to the extent of the annual wear and tear. This persistent portion of the fixed capital does not exist for us, when we consider the value of the product. It is a portion of the value of capital existing independently beside the new value in commodities produced by this capital. This was shown previously in the analysis of the value of the product of some individual capital (volume I, chapter VI). However, for the present we must leave aside the method of analysis employed there. We saw in the study of the value of the product of individual capital that the value withdrawn from the fixed capital by wear and tear was transferred to the product in commodities created during the time of wear, no matter whether any portion of this fixed capital is reproduced in its natural form out of the value thus transferred or not. At this point, however, in the study of the social product as a whole and of its value, we must for the present leave out of consideration that portion of value which is transferred from the fixed capital to the annual product by wear and tear, unless this fixed

capital is reproduced in natura during the year. In one of the following sections of this chapter we shall return to this point.

III.XX.12

We shall base our analysis of simple reproduction on the following diagram, in which c stands for constant capital, v for variable capital, and s for surplus-value, the rate of surplus-value between v and s being assumed at 100 per cent. The figures may indicate millions of francs, marks, pounds sterling, or dollars.

I. Production of Means of Production.
Capital…4000 c+1000 v=5000.
Product in Commodities…4000 c+1000 v+1000 s=6000.

III.XX.13

These exist in the form of means of production.

II. Production of Means of Consumption.
Capital…2000 c+500 v=2500.
Product in Commodities…2000 c+500 v+500 s=3000.

III.XX.14

These exist in articles of consumption.
III.XX.15

Recapitulation: Total annual product in commodities:

I. 4000 c+1000 v+1000 s=6000 means of production.
II. 2000 c+ 500 v+ 500 s=3000 articles of consumption.

Total value 9000, exclusive of the fixed capital persisting in its natural form, according to our assumption.
III.XX.16

Now, if we examine the transactions required on the basis of simple reproduction, where the entire surplus-value is unproductively consumed, leaving aside for the present the mediation of the money circulation, we obtain at the outset three great points of vantage.
III.XX.17

(1) The 500 v, representing wages of the laborers, and 500 s, representing surplus-value of the capitalists, in department II, must be spent for articles of consumption. But their value exists in the articles of consumption to the amount of 1000, held by the capitalists of department II, which reproduce the 500 v and represent the 500 s. The wages and surplus-value of department II, then, are exchanged within this department for products of this same department. By this

means, a quantity of articles of consumption equal to 1000 (500 v plus 500 s) disappear out of the total product of department II.
III.XX.18

(2) The 1000 v and 1000 s of department I must likewise be spent for articles of consumption, in other words, for some of the products of department II. Hence they must be exchanged for the remaining 2000 c of constant value, which is equal in amount to them. Department II receives in return an equal quantity of means of production, the product of I, in which the value of 1000 v and 1000 s of I is incorporated. By this means, 2000 c of II and (1000 v + 1000 s) of I disappear out of the calculation.
III.XX.19

(3) Nothing remains now but 4000 c of I. These consist of means of production which can be used up only in department I. They serve for the reproduction of its consumed constant capital, and are disposed of by the mutual exchange between the individual capitalists of I, just as are the (500 v + 500 s) in II by an exchange between the capitalists and laborers, or between the individual capitalists, of II.
III.XX.20

This may serve for the present to render easier the understanding of the following statements.
III.XX.21

III. THE TRANSACTIONS BETWEEN THE TWO DEPARTMENTS.*46

I (v + s) versus II c.

III.XX.22

We begin with the great exchange between the two departments. The values of (1000 v + 1000 s), consisting of the natural form of means of production in the hands of their producers, are exchanged for 2000 c of II, for values consisting of articles of consumption in their natural form. The capitalist class of II thereby reconverts its constant capital of 2000 from the form of articles of consumption into that of means of production of articles of consumption. In this form it may serve once more as a factor in the labor-process as the value of constant capital in the process of self-expansion. On the other hand, the equivalent of the labor-power of I (1000 v) and of the surplus-value of the capitalists of I (1000 s) is realized in articles of consumption; both of them are converted from their natural form of means of production into a natural form in which they may be consumed as revenue.

III.XX.23

Now, this mutual transaction is accomplished by means of a circulation of money, which facilitates it as much as it renders its understanding difficult, but which is of fundamental importance, because the variable

portion of capital must ever resume the form of money, of money-capital converting itself from the form of money into labor-power. The variable capital must be advanced in the form of money in all lines of production carried on simultaneously, regardless of whether they belong to department I or II. The capitalist buys the labor-power before it enters into the process of production, but does not pay for it except at stipulated terms, after it has been expended in the production of use-values. He owns, with the remainder of the value of the product, also that portion of it which is an equivalent for the money expended in the payment of labor-power, in other words, that portion of the value of the product which represents variable capital. By this portion of value the laborer has supplied the capitalist with the equivalent for his own wages. But it is the reconversion of commodities into money by their sale which restores to the capitalist his variable capital in the form of money-capital, which he may advance once more for the purchase of labor-power.
III.XX.24

In department I, then, the aggregate capitalist has paid 1000 pounds sterling (I use the term pounds sterling merely to indicate that it is value in the form of money), equal to 1000 v, for the v-portion of the already existing value of product I, that is to say, of the means of production created by him. The laborers buy with these 1000 pounds sterling articles of consumption of the same value from the capitalists II, thereby converting one-half of the constant capital II

into money; the capitalists II, in their turn, buy with these 1000 pounds sterling means of production, valued at 1000, from the capitalists I; the variable capital-value of 1000 v, which consisted, in the natural form of the product of capitalists I, of means of production, is thus reconverted for them into money and may serve anew in their hands as money-capital, which is transformed into labor-power, the most essential element of productive capital. In this way, their variable capital returns to them in the form of money, as a result of the realization on some of their commodity-capital. III.XX.25

As for the money which is required for the exchange of the s portion of commodity-capital I for the second half of constant capital II, it may be advanced in various ways. In reality, this circulation implies innumerable small purchases and sales of the individual capitals of both departments, the money coming under all circumstances from these capitalists, since we have already disposed of the money thrown into circulation by the laborers. It may be that one of the capitalists of department II buys, with the money-capital he has aside from his productive capital, means of production from capitalists of department I, or that, vice versa, one of the capitalists of department I buys, with funds reserved for individual expenses, not for capital investment, articles of consumption from capitalists of department II. A certain supply of money, to be used either for investment as capital or for expenditure as revenue, must be assumed to exist beside the

productive capital in the hands of the capitalists, under all circumstances, as we have shown in section I and II. Let us assume‘it is immaterial what proportion we select for our purpose‘that one-half of the money is advanced by the capitalists of department II in the purchase of means of production intended for the reproduction of their constant capital, while the other half is spent by the capitalists of department I for articles of consumption. For instance, let department II advance 500 pounds sterling for the purchase of means of production from department I, thereby reproducing (inclusive of the 1000 pounds sterling coming from the laborers of department I) three-quarters of its constant capital in its natural form; department I buys with the 500 pounds sterling so obtained articles of consumption from II, thus completing for one-half of the s-portion of its commodity-capital the circulation c‘m‘c and realizing on its product in a supply of articles of consumption. By means of this second transaction, the 500 pounds sterling return to the hands of the capitalists of department II, in the form of money-capital existing beside its productive capital. On the other hand, department I expends money to the amount of 500 pounds sterling, in anticipation of the realization on the other half of the s-portion of its still unsold commodity-capital, for the purchase of articles of consumption from department II. With the same 500 pounds sterling, department II buys from I means of production, thereby reproducing in natural form its entire constant capital (1000 + 500 + 500 = 2000), while I realizes its entire surplus-value in articles of consumption. The entire transaction

would represent a transfer of commodities valued at 4000 pounds sterling with a circulation of 2000 pounds sterling in money. This last amount is sufficient only because we have assumed that the entire annual product is sold in bulk in a few large transactions. The important point is here that department II has not only reconverted its constant capital, which had been reproduced in the form of articles of consumption, into the form of means of production, but has also recovered the 500 pounds sterling which it had thrown into circulation for the purchase of means of production; and that in the same way department I possesses once more not only its variable capital, which it had produced in the form of means of production, in the form of money-capital, readily convertible into labor-power, but also the 500 pounds sterling expended in the purchase of articles of consumption previously to the sale of the s-portion of its capital in anticipation of its realization. It recovers these 500 pounds sterling, not by this expenditure, but by the subsequent sale of one-half of the s-portion of its commodity-capital.
III.XX.26

In both cases, it is not merely the constant capital of department II which is reconverted from the form of a product into the natural form of means of production, in which it can alone serve as capital; nor is it merely the variable portion of the capital of I which is reconverted into its money-form, nor the surplus-portion of the means of production of I which is transformed into its consumable form of

revenue. It is also the 500 pounds sterling of money-capital, advanced by department II in the purchase of means of production previously to the sale of the corresponding portion of the value of its constant capital, which return to II; and the 500 pounds sterling expended by I for means of consumption previously to the realization of its surplus-value. The fact that the money advanced by II at the expense of the constant portion of its commodities, and by I at the expense of the surplus-portion of its commodities, returns to them is due to the circumstance that one class of capitalists throws 500 pounds sterling into circulation over and above the constant capital existing in the form of commodities in department II, and another class a like amount over and above the surplus-value existing in the form of commodities in department I. In the last analysis, the two departments have mutually paid one another in full by the exchange of equivalents in the form of their respective commodities. The money thrown into circulation by each department in excess of the value of their commodities, as a means of transacting the exchange of these commodities, returns to each one of them out of the circulation at the same rate in which they had contributed to it. Neither has grown any richer thereby. Department II possessed a constant capital of 2000 in the form of articles of consumption plus 500 pounds sterling in money; now it possesses 2000 in means of production plus 500 pounds sterling in money, the same as before; in the same way, department I possesses, as before, a surplus-value of 1000 (consisting of commodities in the form of means of production, now converted

into a supply of articles of consumption) plus 500 pounds sterling. The general conclusion is this: The money which the industrial capitalists throw into circulation for the purpose of accomplishing the mutual exchange of their commodities, either in account with the constant value of the commodities, or in account with the surplus-value existing in the commodities, to the extent that it is spent as revenue, returns into the hands of the respective capitalists in proportion to the amount advanced by them for the circulation of money.
III.XX.27

As for the reconversion of the variable capital of department I into the form of money, this capital exists, after the capitalists of I have invested it in wages, first in the form of the commodities produced by the laborers. The capitalists have paid this capital in the form of money to these laborers as the price of their labor-power. The capitalists have to this extent paid for that portion of the value of their commodities, which is equal to the variable capital expended in the form of money. They are, for this reason, the owners of this portion of the commodity-product. But that portion of the working class which is employed by them does not buy the means of production created by it; these laborers buy articles of consumption produced by department II. Hence the variable capital advanced by the capitalists of I in the payment of labor-power does not return to these capitalists directly. It passes by means of the purchases of the

laborers of I into the hands of the capitalist producers of the requirements of life of the laborer, or of other commodities accessible to them; in other words, it passes into the hands of capitalists of II. And not until these expend this money in the purchase of means of production does it return by this circuitous route into the hands of the capitalists of department I.

III.XX.28

It follows that, on the basis of simple reproduction, the sum of the values of v plus s of the commodity-capital of I (and therefore a corresponding proportional part of the total product in commodities of I) must be equal to the constant capital c of department II, which is likewise disposed of as a proportional part of the entire product in commodities of department II; or I (v + s) = II c.

IV. TRANSACTIONS WITHIN DEPARTMENT II. NECESSITIES OF LIFE AND ARTICLES OF LUXURY.

III.XX.29

It remains for us to analyze the portion v plus s of the value of the commodities of department II. This analysis has nothing to do with the most important question which occupies our attention in this chapter, namely the question, to what extent the separation of the value of every individual capitalist product in commodities into c plus v

plus s applies also to the value of the entire annual product in commodities, even though this separation may be based on different forms. This question is solved by the transaction between I (v + s) and II c, and, on the other hand, by the analysis of the reproduction of I c in the annual product in commodities of I, to be analyzed later on.

III.XX.30

Since II (v + s) exists in the natural form of articles of consumption; since, furthermore, the variable capital advanced in the payment of the labor-power of the laborers is mostly spent by them for articles of consumption; and since, finally, the s-portion of the value of commodities, on the basis of simple reproduction, is practically spent as revenue for articles of consumption, it is evident at the first glance that the laborers of II buy back, with the money received as wages from the capitalists of II, a portion of their own product, corresponding in value to the money-value represented by these wages. The capitalist class of II thereby reconvert the money-capital advanced by them in the payment of labor-power into the form of money. It is as though they had paid the laborers in mere checks on commodities. As soon as the laborers realize on these checks by the purchase of a portion of the commodities produced by them, but belonging to the capitalists, these checks return into the hands of the capitalists. Only, these checks do not merely represent value, but they are actually embodied in gold or silver. We shall analyze later on this

sort of reflux of variable capital by means of a process in which the laborer appears as a purchaser and the capitalist as a seller. Here, however, it is a question of a different point, which must be discussed on the occasion of the return of this variable capital to its point of departure.
III.XX.31

Department II of the annual production of commodities consists of a great variety of lines of production, which may, however, be divided into two great subdivisions according to their products.
III.XX.32

(a) Articles of consumption required for the maintenance of the laboring class, and to the extent that they are material requirements of life, also forming a portion of the consumption of the capitalist class, although they are frequently different in quality and value. We may, for our purposes, comprise this entire subdivision under the name of necessary articles of consumption, regardless of whether a product of this class, such as tobacco, is really a necessary article of consumption from the physiological standpoint or not. It is sufficient that it may be habitually in demand.
III.XX.33

(b) Articles of luxury, which are consumed only by the capitalist class, being purchased only with the surplus-value, which never falls to the share of the laborer.
III.XX.34

It is obvious that the variable capital advanced in the production of the commodities of the class (a) must flow back directly to that portion of the capitalist class of II (in other words the capitalists of IIa) who have produced these material requirements of life. They sell them to their own laborers to the amount of the variable capital paid to them in wages. This reflux takes place in a direct way, so far as this entire subdivision (a) of the capitalist class of department II is concerned, no matter how numerous may be the transactions between the capitalists of the various lines of industry interested in this department, by means of which the returning variable capital is distributed pro rata. These transactions are processes of circulation, whose means of circulation are supplied directly by the money expended by the laborers. It is different with subdivision IIb. The entire portion of the values produced in this subdivision, IIb (v + s), exists in the natural form of articles of luxury; that is to say, articles which the laborer can buy no more than the value of the commodities Iv existing in the form of means of production, notwithstanding the fact that both articles of luxury and means of production are the products of the working class. Hence the reflux by which the variable capital advanced in this subdivision restores to the capitalist producers

its value in the form of money cannot take place directly, but must be promoted indirectly, similarly as in the case of Iv.
III.XX.35

Let us assume, for instance, that v stands for 500 and s also for 500, as they did in the case of the entire class II; but let the division of the variable capital and of the corresponding surplus-value be as follows:

(Subdivision a) Necessities of Life: v equal to 400 and s equal to 400; hence a total quantity of necessities of life valued at 400 v plus 400 s, equal to 800, in other words, IIa (400 v+400 s).

(Subdivision b) Articles of Luxury: Valued at 100 v plus 100 s, equal to 200, or IIb (100 v + 100 s).

III.XX.36

The laborers of IIb have received 100 in money as payment of their labor-power, or say 100 pounds sterling. They buy with this money articles of consumption from the capitalists of IIa to the same amount. This class of capitalists buys with the same money 100 p. st. worth of the commodities of IIb, thereby returning to the capitalists of IIb their variable capital in the form of money.
III.XX.37

In IIa there are available once more 400 v in money, in the hands of the capitalists, obtained by exchange with their laborers. Furthermore, the fourth part of the product representing surplus-value has been transferred to the laborers of IIb, and IIb (100v) have been purchased in the form of articles of luxury.
III.XX.38

Now, assuming that the capitalists of IIa and IIb divide the expenditure of their revenue in the same proportion between necessities of life and luxuries‘for instance, three-fifths for necessities and two-fifths for luxuries‘the capitalists of IIa will spend their revenue from surplus-value, amounting to 400 s, three-fifths, or 240, for their own product of necessities of life, and two-fifths, or 160, for articles of luxury. The capitalists of subdivision IIb will divide their surplus-value of 100 s in the same way: three-fifths, or 60, for necessities, and two-fifths, or 40, for articles of luxury, these being produced and exchanged in their own sub-division.
III.XX.39

The 160 in articles of luxury received by IIa for its surplus-value, pass into the hands of the capitalists of IIa in the following manner: Of the 400 s of IIa, we have seen that 100 were exchanged in the form of necessities of life for an equal amount of articles of luxury of IIb, and furthermore 60, consisting of necessities of life, for 60 s of IIb, consisting of luxuries. The total calculation then stands as follows:

IIa: 400 v plus 400 s; IIb: 100 v plus 100 s.

III.XX.40

(1) 400 v of (a) are consumed by the laborers of IIa, a part of whose product is represented by that amount in necessities of life; the laborers buy these necessities from the capitalist producers of their own subdivision. These capitalists thereby recover 400 p. st., in money, which is the value of the variable capital paid by them to these same laborers. They can now buy more labor-power with it.
III.XX.41

(2) One portion of the 400 s of (a), equal to the 100 v of (b); in other words, one-quarter of the surplus-value of (a) is exchanged for luxuries in the following way: The laborers of (b) received from the capitalists of their subdivision 100 p. st. in wages. With this amount these laborers bought one-quarter of the surplus-value of (a), in other words, commodities consisting of necessities of life. The capitalists of (a) buy with this same money articles of luxury to the same amount, which equals 100 v of (b), or one-half of the entire product in luxuries of (b). In this way the capitalists of (b) recover their variable capital in the form of money and are enabled to resume reproduction after having invested this amount once more in labor-power, since the entire constant capital of the whole department II has been

reproduced by the exchange between I (v+s) and IIc. The labor-power of the laborers of IIb, the producers of articles of luxury, is under these circumstances, only saleable because the product created by them as an equivalent for their own wages is consumed by the capitalists of IIa. (The same applies to the sale of the labor-power of I, since the IIc for which I (v + s) is exchanged, consists of both articles of luxury and necessities of life, and that which is reproduced by means of I (v + s) consists of the means of production of both luxuries and necessities.)
III.XX.42

(3) We now come to the exchange between a and b, to the extent that it is merely a transaction between the capitalists of these two subdivisions. So far we have disposed of the variable capital (400) v and of one portion of the surplus-value (100) s in (a), and of the variable capital (100) v in (b). We had furthermore assumed that the average proportion of the expenditure of the capitalist revenue was in both classes two-fifths for luxuries and three-fifths for necessities. Apart from the 100 thus expended for luxuries, the entire department therefore still has to spend 60 for luxuries in (a) and the same proportion, or 40, in (b).
III.XX.43

(IIa) is then divided into 240 for necessities and 160 for luxuries, or 240 + 160=400 s (IIa).

III.XX.44

(IIb) s is divided into 60 for necessities and 40 for luxuries; 60 + 40 = 100s (IIb). The last 40 are consumed by this class out of its own product (two-fifths of its surplus-value); the 60 for necessities are obtained by this class through the exchange of 60 of its surplus-value for 60 s of a.

III.XX.45

We have, then, for the entire capitalist class of II, the following situation (v plus s in subdivision (a) consisting of necessities, in subdivision (b) of luxuries):

IIa (400 v + 400 s) +IIb (100 v + 100 s) = 1000; by this transaction there is realized 500 v (a + b) + 500 s (a + b) = 1000; the first member in this equation being realized in 400 v of (a) and 100 s of (b), the second in 300 s of (a) plus 100 v of (b) plus 100 s of (b).

III.XX.46

Considering a and b, each by itself, we have the transaction:

equation

III.XX.47

If we retain, for the sake of simplicity, the same proportion between the variable and constant capital of each subdivision (which, by the way, is not at all necessary), we obtain for 400 v (a) a constant capital of 1600, and for 100 v (b) a constant capital of 400, and we have the following two subdivisions a and b in department II:

(IIa) 1600 c + 400 v + 400 s = 2400
(IIb) 400 c + 100 v + 100 s = 600

making together

2000 c + 500 v + 500 s = 3000.

III.XX.48

Accordingly, 1600 of the 2000 IIc in articles of consumption, which are exchanged for 2000 I (v + s), are disposed of for means of production of necessities of life, and 400 for means of production of luxuries.

III.XX.49

The 2000 I (v + s), then, would be divided into (800 v + 800 s) I, for the 1600 means of production of necessities of life in section a,

and (200 v + 200 s) I, for the 400 means of production of luxuries in b.

III.XX.50

A considerable part of the instruments of labor, strictly so called, as well as of the raw and auxiliary materials, etc., is homogeneous for both departments. But so far as the transaction of the exchanges of the various portions of value of the total product I (v + s) are concerned, such a division would be immaterial. Both the above named 800 v of I and 200 v of I are realized by the spending of wages for articles of consumption 1000 c of II, and the money-capital advanced for this purpose is uniformly distributed, on its return, among the capitalist producers of I, reproducing their variable capital in money at the rate advanced by them. On the other hand, so far as the realization of the 1000 s of I is concerned, the capitalists will likewise draw uniformly, in proportion to the magnitude of their surplus-value, 600 IIa and 400 IIb out of the entire second half of IIc, equal to 1000; in other words, those who make up for the constant capital of IIa will draw 480, or three-fifths, out of 600 c of IIa, and 320, or two-fifths, out of 400 c of IIb, a total of 800; while those who make up for the constant capital of IIb will draw 120, or three-fifths out of 600 c of IIa and 80, or two-fifths out of 400 c of IIb, a total of 200. Grand total, 1000.

III.XX.51

That which is arbitrary in this case is the proportion of the variable to the constant capital of both I and II and so is the uniformity of this proportion for I and II and their subdivisions. As for this uniformity, it has been assumed merely for the sake of simplifying the matter, and it would not alter in any way the fundamental conditions of the problem and its solution, if we had assumed different proportions. However, the necessary result of all this, on the basis of simple reproduction, is the following:
III.XX.52

(1) That the new product in values created by the labor of one year in the natural form of means of production, divisible into v plus s, must be equal to the value of the constant capital c of the product in values created by the other part of annual labor, reproduced in the form of articles of consumption. If it were smaller than IIc, it would be impossible for II to reproduce its entire constant capital; if it were greater, a surplus would remain unused. In either case, the assumption of simple reproduction would be violated.
III.XX.53

(2) That in the case of annual product which is reproduced in the form of articles of consumption, the variable capital v advanced in the form of money can be realized by its recipients, to the extent that they are laborers producing luxuries, only in that portion of the necessities of life which embodies for its capitalist producers primarily

their surplus-value; so that v, invested in the production of luxuries, is equal in value to a corresponding portion of s produced in the form of necessities, and must be smaller than the whole of this s, which is s of IIa; and that, finally, the variable capital of the capitalist producers of luxuries returns to them in the form of money only by means of the realization of that v in this portion of s. This phenomenon is quite analogous to the realization of I (v +s) in IIc; only that in the second case, it is the v of IIb which is realized in a portion of s of IIa of the same value. These conditions determine the proportions of the various quantities in every distribution of the total annual product, to the extent that it actually enters into the process of the annual reproduction promoted by circulation. I (v+s) can be realized only in IIc, and IIc can renew its function as a component part of productive capital only by means of this realization; in the same way, the v of IIb can be realized only in a portion of s of IIa, and v of IIb can only thus be reconverted into the form of money-capital. Of course, all this applies only to the extent that it is a result of the process of reproduction itself, so that the capitalists of IIb do not, for instance, take up money-capital for v by credit from others. So far as mere quantity is concerned, the transactions for the exchange of the various portions of the annual product can take place only in the way indicated above, so long as the scale and the conditions determining value remain stationary, and so long as these strict conditions are not altered by the commerce with foreign countries.

Now, if we were to say after the manner of Adam Smith that I(v + s) resolves itself in IIc, and IIc resolves itself into I(v + s), or, as he says more frequently and more absurdly, I (v + s) constitutes the component parts of the price (or value in exchange, as he has it) of IIc, and IIc constitutes the entire component part of the value of I (v + s), then we could and should say that the v of IIb resolves itself into s of IIa, or the s of IIa into the v of IIb, or the v of IIb forms a component part of the s of IIa, or, vice versa, the surplus-value thus resolves itself into wages, or into variable capital, and the variable capital forms a component part of the surplus-value. This absurdity is indeed found in Adam Smith, since according to him wages are determined by the value of the necessities of life, and the values of these commodities in their turn by the value of the wages (variable capital) and surplus-value contained in them. He is so absorbed in the fractional parts, into which the product in values of one working day is divided on the basis of capitalist production‘namely into v plus s‘that he quite forgets that it is immaterial in the simple exchange of commodities, whether the equivalents existing in various natural forms consist of paid or unpaid labor, since their production costs in either case the same amount of labor; and that it is also immaterial, whether the commodity of A is a means of production and that of B an article of consumption, and whether one commodity has to serve as a component part of capital after its sale, while another

passes into the fund for consumption and is consumed, according to Adam, as revenue. The use to which the buyer puts his commodity does not fall within the scope of the exchange of commodities, does not concern the circulation, and does not affect the value of the commodity. This fact is not in the least affected by the truth that, in the analysis of the circulation of the annual social product as a whole, the definite use for which it is intended, the mode of consumption of the various component parts of that product, must be taken into consideration.

III.XX.55

In mentioning the fact that the conversion of the v of IIb into a portion of the s of IIa of the same value, and the further transactions between the s of IIa and the s of IIb, it is by no means assumed that either the individual capitalists of IIa and IIb or their respective totalities divide their surplus-value in the same proportion between necessities of life and articles of luxury. The one may spend more in this consumption, the other more in that. On the basis of simple reproduction we have merely assumed that a sum of values equal to the entire surplus-value is realized in a fund for consumption. The limits are thus given. Within each department, the one may do more in a, the other in b. But this may compensate itself mutually, so that the capitalist classes of a and b, each taken as a whole, each participate in the same proportion in both of them. The proportions of value‘the proportional share of the two classes of producers, a and b,

in the total value of the product of II‘and with them a definite quantitative proportion between the departments of production supplying those products, are necessarily given in any concrete case; only a proportion chosen as an illustration is a hypothetical one. It does not alter the qualitative elements of the proposition, if we select another illustration; only the quantitative determinations would be altered. But if any circumstances cause an actual change in the proportional magnitude of a and b, then the conditions of simple reproduction would likewise be changed correspondingly.

III.XX.56

Since the v of IIb is realized in an equivalent portion of the s of IIa, it follows that to the extent that the portion of the annual product consisting of luxuries grows, absorbing an increasing share of the labor-power in the production of luxuries, to the same extent is the reconversion of variable capital advanced by IIb into money conditioned on the prodigality of the capitalist class, who spend a considerable portion of their surplus-value in articles of luxury. It is by this means that the reconversion of this variable capital into money is promoted, and thereby the existence and reproduction of the laborers employed in IIb, by supplying them with the articles of consumption necessary for their life.

III.XX.57

Every crisis momentarily lessens the consumption of luxuries. It retards and checks the reconversion of the v of IIb into money-capital, permitting it only partially and thus throwing a certain number of the laborers employed in the production of luxuries out of employment, while it on the other hand clogs by this means the sale of the necessary articles of consumption and reduces it. And there are, besides, the unproductive laborers who are dismissed at the same time, laborers who receive for their services a portion of the funds spent by the capitalists for luxuries (these laborers are themselves luxuries), and who take part to a very considerable extent in the consumption of necessities of life, etc. The reverse takes place in periods of prosperity, particularly during the times of bogus prosperity, in which the relative value of money, expressed in commodities, decreases primarily for other reasons (without any other actual revolution in values), so that the price of commodities rises independently of their own value. It is not alone the consumption of necessities of life which increases at such times. The working class, actively re-inforced by its entire reserve army, also enjoys momentarily articles of luxury ordinarily out of its reach, articles which at other times constitute for the greater part "necessities" only for the capitalist class. This contributes to a rise in prices from this quarter. III.XX.58

It is purely a tautology to say that crises are caused by the scarcity of solvent consumers, or of a paying consumption. The capitalist

system does not know any other modes of consumption but a paying one, except that of the pauper or of the "thief." If any commodities are unsaleable, it means that no solvent purchasers have been found for them, in other words, consumers (whether commodities are bought in the last instance for productive or individual consumption). But if one were to attempt to clothe this tautology with a semblance of a profounder justification by saying that the working class receive too small a portion of their own product, and the evil would be remedied by giving them a larger share of it, or raising their wages, we should reply that crises are precisely always preceded by a period in which wages rise generally and the working class actually get a larger share of the annual product intended for consumption. From the point of view of the advocates of "simple" (!) common sense, such a period should rather remove a crisis. It seems, then, that capitalist production comprises certain conditions which are independent of good or bad will and permit the working class to enjoy that relative prosperity only momentarily, and at that always as a harbinger of a coming crisis.*47
III.XX.59

We saw a while ago that the proportion between the production of necessities of life and that of luxuries requires the division of II (v + s) into IIa and IIb, and thus of IIc into (IIa) c and (IIb) c. Hence this division touches the character and the quantitative conditions of production to their very roots, and is an essential factor in its general conformation.

III.XX.60

Simple reproduction is essentially directed toward consumption as an end, although the securing of surplus-value appears as the compelling motive of the individual capitalists; but surplus-value in this case, whatever may be its proportional magnitude, is supposed to serve merely for the individual consumption of the capitalist.

III.XX.61

So far as simple reproduction is a part, and the most important one at that, of annual reproduction on an enlarged scale, consumption remains as a motive accompanying the accumulation of wealth as an end and distinguished from it. In reality, the matter appears more complicated, because some partners in the loot, the surplus-value of the capitalist, figure as consumers independently of him.

V. THE PROMOTION OF THE TRANSACTIONS BY THE CIRCULATION OF MONEY.

III.XX.62

So far as we have analyzed circulation up to the present, it proceeded between the various classes of producers as indicated in the following diagrams:

(1) Between class I and class II:

I. 4000 c + 1000 v + 1000 s.

II....2000 c...+ 500 v + 500 s.

III.XX.63

This disposes of the circulation of IIc (2000), which is exchanged for I (1000 v + 1000 s).

III.XX.64

Leaving aside for the present the 4000 c of I, there still remains the circulation of v + s within class II. Now II (v + s) is subdivided between the subclasses IIa and IIb in the following manner:

(2) II. 500 v + 500 s=a (400 v + 400 s) + b (100 v + 100 s).

III.XX.65

The 400 v of a circulate within their own subclass; the laborers paid with these wages buy with them articles of consumption, produced by themselves, from their employers, the capitalists of IIa.

III.XX.66

Since the capitalists of both subclasses spend three-fifths of their surplus-value in products of IIa (necessities) and two-fifths in products

of IIb (luxuries), the three-fifths of the surplus-value of a, or 240, are consumed within the subclass IIa itself; likewise two-fifths of the surplus-value of b (produced in the form of articles of luxury and existing as such) within the subclass IIb.
III.XX.67

There remains to be exchanged between IIa and IIb: On the side of IIa: 160 s; on the side of IIb: 100 v + 60 s. These compensate one another. The laborers of IIb buy with their 100 in the form of money necessities of life to that amount from IIa. The capitalists of IIb likewise buy necessities from IIa to the amount of three-fifths, or 60, of their surplus-value. The capitalists of IIa thus obtain the money required for investing, as above assumed, two-fifths of their surplus-value, or 160 s, in luxuries produced by IIb (100 v held by the capitalists of IIb as a product reimbursing them for the wages paid by them, and 60 s). The diagram for this transaction is

equation

the brackets indicating the amounts circulated and consumed within their own subclass.
III.XX.68

The direct reflux of the money-capital advanced in variable capital, which takes place only in the case of the capitalist class of IIa who

produce necessities of life, is but an expression, modified by special conditions, of the previously mentioned general law, that money advanced to the circulation by producers of commodities returns to them in the normal circulation of commodities. Consequently, if a money capitalist stands behind the producer of commodities and advances to the industrial capitalist money-capital (using this term in its strictest meaning, that is to say, capital-value in the form of money), the final point of reflux for this money is the pocket of this money-capitalist. In this way the mass of the circulating money belongs to that department of money-capital which is concentrated and organized in the form of banks, etc., although the money circulates more or less through all hands. The way in which this department advances its capital necessitates continually the final reflux to it in the form of money, although this takes place by way of the reconversion of the industrial capital into money-capital.
III.XX.69

The circulation of commodities always requires two things: Commodities which are thrown into circulation, and money which is likewise thrown into it. "The process of circulation...does not, like direct barter of products, become extinguished upon the use-values changing places and hands. The money does not vanish on dropping out of the circuit of the metamorphosis of a given commodity. It is constantly being precipitated into new places in the arena of

circulation vacated by other commodities," etc. (Volume I, chapter III, page 126.)

III.XX.70

For instance, in the circulation between IIc and I (v + s) we assumed that 500 pounds sterling in gold had been advanced for it. In the innumerable processes of circulation, into which the circulation between great social groups resolves itself, now this, now that producer will first appear in one or the other group as a buyer, throwing money into circulation. Quite aside from individual circumstances, this is conditioned on the difference of the periods of production and thus of the turn-overs of the various commodity-capitals. Now II buys with these 500 pounds sterling means of production of the same value from I, and I buys from II articles of consumption valued at 500 pounds sterling. Hence the money flows back to II, but this department does not in any way increase its wealth by this reflux. It had thrown 500 pounds sterling in money into circulation and drew the same amount out of it in commodities; then it sells 500 pounds sterling worth of commodities and draws out of circulation the same amount in money; thus the 500 pounds sterling flow back to it. As a matter of fact, II has thrown into circulation 500 pounds sterling in money and 500 pounds sterling in commodities, a total of 1000 pounds sterling. It draws out of the circulation 500 pounds sterling in commodities and 500 pounds sterling in money. The circulation requires for the handling of 500 pounds

sterling in commodities of I and 500 pounds sterling in commodities of II only 500 pounds sterling in money; and whoever has first advanced money in the purchase of commodities from other producers, recovers it when selling his own. Hence, if department I had been the first to buy commodities from II for 500 pounds sterling, and to sell later on to II commodities valued at 500 pounds sterling, these 500 pounds sterling would have returned to I instead of II.
III.XX.71

In class I, the money invested in wages, in other words, the variable capital advanced in the form of money, does not return directly in this form, but indirectly by a detour. But in II, the 500 pounds sterling return directly from the laborers to the capitalists, and this return is always direct in the case where purchase and sale takes place repeatedly between the same persons in such a way that they are acting alternately as buyers and sellers of commodities. The capitalist of II pays for the labor-power in money; he thereby incorporates his labor-power in his capital and assumes the role of an industrial capitalist over his laborers as wage earners only by means of this transaction in circulation, which is for him merely a conversion of money-capital into productive capital. Thereupon the laborer, who is in the first instance a seller of his own labor-power, assumes in the second instance the role of a buyer, a possessor of money, while the capitalist acts now as a seller of commodities. In this way the capitalist recovers the money invested by him in wages. Unless this

sale of his commodities implies cheating, etc., and remains but an exchange of equivalents in money and commodities, it is not a process by which the capitalist enriches himself. He does not pay the laborer twice, first in money, and then in commodities. His money returns to him as soon as the laborer exchanges it for his commodities.
III.XX.72

Now, the money-capital converted into variable capital, the money advanced for wages, plays a prominent role in the circulation of money itself. For the laborer must live from hand to mouth and cannot give the industrial capitalists any credit for long periods. Hence variable capital in the form of money must be advanced simultaneously at innumerable localities in the social production in certain short intervals, such as weeks, etc., whatever may be the various periods of turn-over of the capitals in the different lines of industry. These intervals succeed one another with relative rapidity, and the shorter they are, the smaller is relatively the total amount of money thrown into circulation through this channel. In every country with a capitalist production the money-capital so advanced constitutes a proportionately influential share of the total circulation, so much more so as the same money, before its return to its point of departure, roams through many channels and serves as a medium of circulation for innumerable other businesses.

III.XX.73

Now let us consider the circulation between I (v + s) and IIc from a different point of view.

III.XX.74

The capitalists of I advance 1000 pounds sterling in the payment of wages. The laborers buy with this money 1000 pounds sterling's worth of commodities from the capitalists of II. These in turn buy with the same money means of production from the capitalists of I. These capitalists of I thereby recover their variable capital in the form of money, while the capitalists of II have reconverted one-half of their constant capital from the form of commodities into that of productive capital. The capitalists of II advance 500 pounds sterling more for the purchase of means of production from the capitalists of I. The capitalists of I spend this money in articles of consumption of II. These 500 pounds sterling thus return to the capitalists of II. They advance this amount again, in order to reconvert the last quarter of their constant capital, existing in the form of commodities, into means of production of I, its natural productive form. This money flows back to I, and once more withdraws from II articles of consumption to the same amount, returning 500 pounds sterling to II. The capitalists of II are then once more in possession of 500 pounds sterling in money and 2000 pounds sterling of constant capital, the latter having been reconverted from the form of commodity-capital into that of productive

capital. By means of 1500 pounds sterling, a quantity of commodities valued at 5000 pounds sterling has been circulated. (1) I paid 1000 pounds sterling to his laborers for their labor-power of the same value; (2) the laborers bought with these same 1000 pounds sterling articles of consumption from II; (3) II bought with the same money means of production from I, thereby restoring to I its variable capital of 1000 pounds sterling in the form of money; (4) II buys 500 pounds sterling's worth of means of production from I; (5) I buys with the same 500 pounds sterling articles of consumption from II; (6) II buys with the same 500 pounds sterling means of production from I; (7) I buys with the same 500 pounds sterling articles of consumption from II. Thus 500 pounds sterling have returned to II, which it had thrown into circulation aside from its 2000 pounds sterling in commodities and for which it did not withdraw any equivalent from circulation.*48
III.XX.75

The exchange, therefore, follows this course:
III.XX.76

(1) I pays 1000 pounds sterling in money for labor-power, or, in short, commodities at 1000 pounds sterling.
III.XX.77

(2) The laborers buy with their wages amounting to 1000 pounds sterling articles of consumption from II; therefore we have again commodities at 1000 pounds sterling.
III.XX.78

(3) II buys with the 1000 pounds sterling received from the laborers means of production to the same amount; hence, once more, commodities at 1000 pounds sterling.
III.XX.79

By this transaction the 1000 pounds sterling have returned to I in the money-form of its variable capital.
III.XX.80

(4) II buys 500 pounds worth of means of production from I, or, commodities at 500 pounds sterling.
III.XX.81

(5) I buys with the same 500 pounds sterling articles of consumption from II; or, commodities at 500 pounds sterling.
III.XX.82

(6) II buys with the same 500 pounds sterling means of production from I; or, commodities at 500 pounds sterling.
III.XX.83

(7) I buys with the same 500 pounds sterling articles of consumption from II; or, commodities at 500 pounds sterling.
III.XX.84

Total amount of value of commodities converted: 500 pounds sterling.
III.XX.85

The 500 pounds sterling advanced by II in its first additional purchase have returned to it.
III.XX.86

This, then, is the result:
III.XX.87

(1) I possesses variable capital in the form of money to the amount of 1000 pounds sterling, which it had originally advanced to the circulation. It has furthermore expended 1000 pounds sterling for its individual consumption, in the shape of its product in commodities; that is to say, has spent money which it had originally received for the sale of means of production to the amount of 1000 pounds sterling.
III.XX.88

On the other hand, the natural form in which variable capital existing in the form of money must be incorporated in order to be preserved, in other words, labor-power, has been maintained by consumption, and having been reproduced exists once more as the sole commodity which its owners have for sale in order to make a living. The relation of wage workers and capitalists, then, has likewise been reproduced.
III.XX.89

(2) The constant capital of II is reproduced in its natural form, and the 500 p. st. advanced by the same department to the circulation have likewise returned to its hands.
III.XX.90

So far as the laborers of I are concerned, the circulation takes place according to the simple schedule C‘M‘C. Labor-power1 C‘1000 p. st. as the money-form of the variable capital of I; M2‘necessities of life to the amount of 1000 p. st.; C3‘these 1000 p. st. monetize to the same amount the constant capital of II existing in the form of commodities, of necessities of life.
III.XX.91

From the point of view of the capitalists of II, the process is C‘M, the transformation of a portion of their product into money, from which it is reconverted into the elements of productive capital, namely into a portion of the means of production required by them.

III.XX.92

In the case of the advance of money of 500 p. st., made by the capitalists of II in the purchase of an additional portion of means of production, the money-form of that portion of IIc which exists as yet in the form of commodities, of articles of consumption, is anticipated, in the transaction M‘C, in which II buys with M, and C is sold by I, the money (II) is converted into a portion of productive capital, while C (I) passes through the transaction C‘M, changes itself into money, which, however, does not represent any component part of productive capital for I, but merely monetized surplus-value expended solely for articles of consumption.

III.XX.93

In the circulation M‘C..P..C1‘M1, the first act, M‘C, is that of one capitalist, the last C1‘M1, of another (or at least in part); whether this C, by which M is converted into productive capital, represents an element of constant capital, variable capital, or surplus-value for the seller of C (who exchanges this C for money), is immaterial for the circulation of commodities itself.

III.XX.94

Class I, so far as concerns the portion v plus s of its product in commodities, draws more money out of circulation than it threw in. In the first place, its 1000 p. st. of variable capital are restored to it; in

the second place, it sells means of production valued at 500 p. st. (see above transaction No. 4); one-half of its surplus-value is thus monetized; then it sells once more 500 p. st.'s worth of means of production (transaction No. 6), the second half of its surplus-value, and thus its entire surplus-value is withdrawn from circulation in the shape of money. The successive transactions, then, have been (1) a reconversion of variable capital into money, to the amount of 1000 p. st.; (2) a monetization of one-half of the surplus-value, to the amount of 500 p. st.; (3) a monetization of the other half of the surplus-value, to the amount of 500 p. st., altogether 1000 v plus 1000 s that have been monetized, or 2000 p. st. Although department I threw only 1000 p. st. into circulation (aside from those transactions which promote the reproduction of Ic, and which we shall analyze later), it has withdrawn double that amount from it. Of course, the surplus-value passes into another hand, that of II, as soon as it has been converted into money, by being spent for articles of consumption. The capitalists of I withdrew only as much value in money as they threw into circulation in the form of commodities; the fact that this value is surplus-value, that is to say, that it does not cost the capitalists anything, does not alter the value of these commodities in any way; so far as the exchange of values in circulation is concerned, that fact is entirely irrelevant. The monetization of surplus-value is, of course, a transient act, the same as all other phases through which the advanced capital passes in its metamorphoses. It lasts no longer than the interval between the

conversion of the commodities of I into money and the subsequent conversion of the money of I into commodities of II.
III.XX.95

If the turn-overs had been assumed to be shorter‘or, from the point of view of the simple circulation of commodities, the number of turn-overs of the circulating money more rapid‘even less money would be required for the circulation of the exchanged values of commodities; the amount is always determined‘if the number of successive transactions is given‘by the sum of the prices, or the sum of values, of the circulating commodities. It is immaterial for this question what proportion of this sum of values consists of surplus-value or of capital-value.
III.XX.96

If the wages of I, in our illustration, were paid four times per year, we should have 4 times 250, or 1000. In other words, 250 p. st. would suffice for the circulation between Iv and ½ of IIc, and for that between the variable capital of I and the labor-power of the same department. Furthermore, if the circulation between Is and IIc were to take place in four turn-overs, it would require only 250 p. st. in money, or in the aggregate a sum of money, or a money-capital, or 500 p. st. for the circulation of commodities worth 5000 p. st. In that case, the surplus-value would be converted into money by four

successive transactions, monetizing one-fourth each time, instead of two transactions of one-half each time.
III.XX.97

If department I instead of II, should assume the role of buyer in transaction No. 4 by expending 500 p. st. for articles of consumption of the same value, II would buy means of production with the same 500 p. st. in transaction No. 5, I would then buy articles of consumption with the same 500 p. st. in transaction No. 6; II would then buy means of production with the same 500 p. st. in transaction No. 7; so that the 500 p. st. would finally return to I, the same as they did in our previous illustration to II. The surplus-value is converted into money, in this second case, by means of an expenditure of money for articles of individual consumption on the part of its capitalist producer, and this expenditure of money discounts beforehand the revenue to be derived from the monetization of the surplus-value still contained in the unsold commodities. The surplus-value is not monetized by the reflux of the 500 p. st.; for aside from 1000 p. st. in the form of commodities of Iv, department I threw 500 p. st. in money into circulation at the close of transaction No. 4, and this was additional money, so far as we know, not money obtained by the sale of commodities. In recovering this money, department I merely pockets once more the additional money advanced by it. It has not monetized its surplus-value by this means. The monetization of the surplus-value of I takes place only by the sale of the commodities

of Is, in which it is incorporated, and lasts only so long as the money obtained by the sale of the commodities is not expended in the purchase of new articles of consumption.
III.XX.98

Department I buys with an additional amount of 500 p. st. in money articles of consumption from II; after spending this money, I holds its equivalent in commodities of II; the money returns for the first time by the purchase, on the part of II, of commodities to the amount of 500 p. st. from I; in other words, it returns as the equivalent of the commodities sold by I, but these commodities do not cost I anything, they constitute surplus-value for I, and thus the money thrown into circulation by this very department monetizes its own surplus-value. On buying for the second time, in transaction No. 6, I has likewise obtained its equivalent in commodities of II. Take it, now, that II would not buy means of production from I. In that case, I would have actually paid 1000 p. st. for articles of consumption, it would have consumed its entire surplus-value as revenue, namely 500 in its own commodities (means of production) and 500 in money; on the other hand, it would still have 500 p. st. in commodities (means of production) in stock, and would have gotten rid of 500 p. st. in money.
III.XX.99

Department II, again, would have reconverted three-fourths of its constant capital from the form of commodity-capital into that of productive capital; but one-fourth, or 500 p. st., would be held by it in money, which, having interrupted its function and waiting for conversion, would be unproductive for the time being. If this condition of things should last for any length of time, II would have to cut down its scale of reproduction by one-fourth.
III.XX.100

However, the 500 in means of production, which I has on its hands, are not surplus-value existing in the form of commodities; they occupy the place of the 500 p. st. advanced in money, which I possessed aside from its 1000 p. st. in commodities. In the form of money, they would be always convertible, as commodities they are momentarily unsalable. So much is evident, that simple reproduction‘in which every element of productive capital must be reproduced in both II and I‘ remains possible in this case only, if the 500 golden birds, which I first sent flying, return to it.
III.XX.101

If a capitalist (we have only industrial capitalists to deal with here, who are the representatives of all others) spends money for articles of consumption, it passes out of his life, it goes the way of the flesh. If it returns to him, it can do so only to the extent that he draws it out of circulation by means of his commodity-capital. The value of his

entire annual product in commodities (which represents his commodity-capital) the same as that of every one of its elements, that is to say, of every individual commodity, resolves itself, from his point of view, into constant capital, variable capital, and surplus-value. The monetization of every individual commodity (each constituting an element of the product in commodities) is at the same time a monetization of a certain portion of the surplus-value contained in the entire product. In the cited case, then, it is literally true that the capitalist himself threw the very money into circulation by which his surplus-value is monetized, and he did so in the purchase of articles of consumption. Of course, it is not a question of the identical pieces of money, but rather of a certain amount of genuine money equal to the one (or an equal portion of the one) which he had previously thrown into circulation to satisfy his own individual wants.
III.XX.102

In practice this is done in two ways: If the business has been opened in the current year, it will take quite a while before the capitalist will be enabled to use any portion of the receipts of his business for the satisfaction of his individual consumption. But he does not suspend his consumption for all that for a single moment. He advances to himself (immaterial whether out of his own pocket or by means of credit from others) money in anticipation of surplus-value to be realized by him. If the business has been running regularly for a period longer than the current year, payments and receipts are distributed over different

terms of the year. But one thing continues uninterruptedly, namely the consumption of the capitalist, which anticipates a definite portion of the customary or estimated revenue and is calculated on a certain proportion of it. With every portion of commodities sold, a portion of the annually produced surplus-value is also realized. But if only as much of the produced commodities were sold during the entire year as is required to reproduce the values contained in the constant and variable capitals, or if prices were to fall to such an extent that only the value of the capital contained in it should be realized by the sale of the entire annual product in commodities, then the anticipatory character of the expenditure of money in expectation of future surplus-value would be clearly revealed. If our capitalist fails, then his creditors and the court investigate whether his anticipated private expenditures were reasonably proportionate to the volume of his business and to the receipts of surplus-value usually or normally corresponding to it.
III.XX.103

So far as the entire capitalist class are concerned, the statement that they must themselves throw into circulation the money required for the realization of their surplus-value (eventually for the circulation of their constant and variable capital) is not only no paradox, but is the necessary premise of the entire mechanism. For there are only two classes in this case, the working class disposing of their labor-power, and the capitalist class owning the social means of production and the

money. It would rather be a paradox if the working class were to advance in the first instance out of its own pockets the money required for the realization of the surplus-value contained in the commodities. But the individual capitalist makes this advance only by acting as a buyer, expending money in the purchase of articles of consumption, or advancing money in the purchase of elements of his productive capital. He never parts with his money unless he gets an equivalent for it. He advances money to the circulation only in the same way that he advances commodities to it. He acts in both instances as the point of departure of their circulation.
III.XX.104

The actual transaction is obscured by two circumstances:
III.XX.105

(1) The fact that merchant's capital (the first form of which is always money, since the merchant as such does not create any "product" or "commodity") and money-capital are manipulated by a special class of capitalists in the process of circulation of industrial capital.
III.XX.106

(2) The division of surplus-value‘which must always be first in the hands of the industrial capitalist‘into various categories, represented, aside from industrial capitalists, by the land owner (for ground rent), the usurer (for interest), etc., furthermore by the government and its

officials, by people living on their income, etc. This gentry appear as buyers as compared to the industrial capitalist, and to that extent as monetizers of his commodities; they likewise throw "money" into circulation on their part and the industrial gets it from them. But in that case, it is always forgotten from what source they derived it originally, and continue deriving it ever anew.

VI. THE CONSTANT CAPITAL OF DEPARTMENT I.*49

III.XX.107

It remains for us to analyze the constant capital of department I, amounting to 4000 c. This value is equal to that of the means of production consumed in the creation of the commodity-product of I and incorporated in it. This re-appearing value, which was not produced in the process of production of I, but entered into it during the preceding year in the form of constant capital, representing the definite value of his means of production, exists now in the entire quantity of commodities not absorbed by department II. And the value of this quantity of commodities thus left in the hands of the capitalists of I equals two-thirds of the value of their entire annual commodity-product. In the case of the individual capitalist producing some particular means of production, we were enabled to say: He sells his commodity-product; he converts it into money. By converting it into money, he has also reconverted into money the constant portion of

the value of his product. With this portion of value, thus converted into money, he then buys his means of production once more from other sellers of commodities, or transforms the constant portion of the value of his product into its natural form, in which it can resume its function of productive constant capital. But now this supposition becomes impossible. The capitalist class of I comprises all the capitalists producing means of production. Besides, the commodity-product of 4000, which is left on their hands, is a portion of the social product which cannot be exchanged for any other portion, because no other portion of the annual product remains. With the exception of these 4000, all the remainder of the product has been disposed of. One portion has been absorbed by the social fund for consumption, and another portion has to reproduce the constant capital of department II, which has already bargained for everything which it can exchange with I.
III.XX.108

The difficulty is solved very easily, when we remember that the entire product of I in its natural form consists of means of production, that is to say, of material elements of the constant capital itself. We meet here the same phenomenon which we witnessed under II, only under a different aspect. In the case of II, the entire product consisted of articles of consumption. Hence one portion of it, measured by the wages plus surplus-value contained in this product, could be consumed by its own producers. Here, in the case of I, the entire product

consists of means of production, such as buildings, machinery, tanks, raw and auxiliary materials, etc. One portion of them, namely that reproducing the constant capital employed in this sphere, can, therefore, be immediately set to work in its natural form to serve once more as an element of productive capital. So far as it goes into circulation, it circulates within department I. While a portion of the commodity-product of II is individually consumed in its natural form by its own producers, a portion of the commodity-product of I is productively consumed in its natural form by its capitalist producers.
III.XX.109

In these 4000c of the commodity-product of I, the constant capital-value consumed in this category re-appears in its natural form in which it can immediately resume its services as a productive constant capital. In department II, that portion of the commodity-product of 3000 whose value is equal to the wages plus the surplus-value of 1000, passes directly into the individual consumption of the capitalists and laborers of II, while, on the other hand, the constant value of this commodity-product, equal to 2000, cannot re-enter into the productive consumption of the capitalists of II, but must be reproduced by exchange with I.
III.XX.110

But in department I, that portion of its commodity-product of 6000, whose value is equal to the wages plus the surplus-value, or 2000,

does not pass into the individual consumption of its producers, and could not on account of its natural form. It must first be exchanged with department II. On the other hand, the constant portion of the value of this product, or 4000, exists in a natural form, in which it can immediately resume its services as the constant capital of the capitalist class of I, taking this class as an aggregate. In other words, the entire product of department I consists of use-values which, on account of their natural form, can serve only as elements of constant capital, in a capitalist system of production. One third of this product of 6000, then, reproduces the constant capital of department II, or 2000, and the other two thirds the constant capital of department I. III.XX.111

The constant capital of I consists of a number of different groups of capital invested in the various lines of production of means of production, so much in iron works, so much in coal mines, etc. Every one of these groups of capital, or every one of these social capital groups, is in its turn composed of a larger or smaller number of independently functioning individual capitals. In the first place, the capital of society, for instance 7500 (millions, or any other denomination) is composed of various groups of capital; the social capital of 7500 is divided into separate parts, every one of which is invested in a special line of production, each portion invested in some particular line of production consists, so far as its natural composition is concerned, partly of means of production required in that special

sphere of production, partly of the labor-power employed in that business and adapted to its requirements. This labor-power is modified by division of labor, according to the specific labor to be performed in each individual sphere of production. Each portion of social capital invested in any particular line of production in its turn consists of the sum of all individual capitals invested in it. This, of course, applies equally to departments I and II.
III.XX.112

As for the value of the constant capital re-appearing in the form of the commodity-product of I, it re-enters in part as means of production into the particular sphere whose product it is (or even into the individual business), for instance, corn into the production of corn, coal into the production of coal, iron in the form of machines into the production of iron, etc.
III.XX.113

However, the partial products constituting the value of the constant capital of I, so far as they do not return directly to their particular or individual sphere of production, merely change their place. They pass in their natural form to some other sphere of production of department I, while the product of other spheres of production of department I replaces them in their natural state. It is merely a change of place of the products. All of them become once more the elements in the reproduction of constant capital of I, only in another

group of I instead of the same one. To the extent that an exchange takes place between the individual capitalists of I, it is an exchange of one natural form of constant capital for another, one kind of means of production for another. It is an exchange of the different individual constant parts of capital of I among themselves. Unless the products serve directly as means of production in their own line, they are transferred to another line and thus naturally replace one another. In other words (similarly to what we saw in the case of the surplus value II), every capitalist of I draws on this constant capital of 4000, of which he is part owner, to the extent of his share, in means of production required by him. If production were socialized, instead of capitalistic, it is evident that these products of department I would just as regularly be redistributed as means of production to the various lines of production of this department, for purposes of reproduction, one portion remaining directly in that sphere of production which created it, another passing over to other lines of production of the same department, thereby entertaining a constant mutual exchange between the various lines of production of this department.

VII. VARIABLE CAPITAL AND SURPLUS-VALUE IN BOTH DEPARTMENTS.

III.XX.114

The total value of the articles of consumption annually produced is equal to the value of the variable capital of II produced during the year plus the newly created surplus-value of II (in other words, equal to the value newly produced by II during the year) plus the value of the variable capital of I reproduced during the year and the newly produced surplus-value of I (in other words, plus the value created by I during the year).
III.XX.115

On the assumption of simple reproduction, then, the total value of the annually produced articles of consumption is equal to the annual product in values, in other words, equal to the total value produced during that year by social labor. And it must be so, for the reason that this entire value is consumed, on the basis of simple reproduction.
III.XX.116

The total social working day is divided into two parts: (1) Necessary labor, which creates in the course of the year a value of 1500 v; (2), surplus labor, which creates an additional value, or surplus-value, of 1500 s. The sum of these values, 3000, is equal to the value of the annually produced articles of consumption of 3000. The total value of articles of consumption produced during the year is therefore equal to the total value produced by the social working day during the year,

equal to the value of the variable social capital plus the social surplus-value, equal to the total new product of the year.
III.XX.117

But we know that the total value of the commodities of II, the articles of consumption, is not produced in this department of social production, although these two classes of value are identical. They are identical, because the value of the constant capital re-appearing in department II is equal to the value newly produced by I (value of variable capital plus surplus value); so that I (v+s) can buy that portion of the product of II which represents the value of the constant capital of the producers in department II. This shows why the value of the product of the capitalists of II, from the point of view of society, may be resolved into v + s, although from their standpoint it is divided into c + v + s. It is because IIc is equal to I (v + s), and because these two elements of the social product are mutually exchanged in their natural forms, so that after this exchange IIc exists once more in means of production, and I (v + s) in articles of consumption.
III.XX.118

And it is this circumstance which induced Adam Smith to claim that the value of the annual product resolves itself into v + s. But this is not true, in the first place, except for that part of the annual product which consists of articles of consumption; and in the second place, it

does not apply in the sense that this total value is entirely produced by department II, so that its value in products would be equal to the variable capital advanced by II plus the surplus-value produced by II. It is true only in the sense that II (c + v + s) is equal to II (v + s) +I (v + s), or because IIc is equal to I (v + s).
III.XX.119

It follows, furthermore:
III.XX.120

Although the social working day (that is to say, the labor expended by the entire working class during the whole year), like every individual working day, is divided only in two parts, namely into necessary labor and surplus-labor, and although the value produced by this working day like-wise resolves itself into but two parts, namely into the value of variable capital, or that portion with which the laborer buys his own means of reproduction, and the surplus-value which the capitalist may spend for his own individual consumption, nevertheless, from the point of view of society, one portion of the social working day is exclusively devoted to the production of new constant capital, namely of products exclusively intended for service as means of production in the labor-process and thus as constant capital in the accompanying process of self-expansion. According to our assumption, the total social working day is represented by a money-value of 3000, only one third of which, or 1000, is produced in

department II, which manufactures articles of consumption, that is to say, commodities in which the entire value of the variable capital and the entire surplus-value of society is finally realized. According to this assumption, two thirds of the social working day are employed in the production of new constant capital. Although, from the standpoint of the individual capitalists and laborers of department I, these two thirds of the social working day serve merely for the production of variable capital plus surplus-value, the same as the last third of the social working day in department II, nevertheless, from the point of view of society, and of the use-value of the product, these two thirds of the social working day serve only for the reproduction of constant capital in process of productive consumption or already so consumed. From the individual point of view, these two thirds of the working day, while producing a total value equal only to the value of the variable capital plus surplus-value, so far as its producer is concerned, nevertheless do not produce any use-values of the kind on which wages or surplus-value could be expended; for their products are means of production.
III.XX.121

It must be noted, in the first place, that no portion of the social working day, whether in I or in II, serves for the production of the value of the constant capital employed and serving in these two great spheres of production. They produce only additional value, namely 2000 I (v + s) + constant capital, represented by 4000 Ic + 2000 IIc.

The 1000 II (v + s), an addition to the existing value of the new value produced in the form of means of production is not yet constant capital. It merely is intended to be used as such in the future.
III.XX.122

The entire product of II, the articles of consumption, viewed concretely as a use-value, in its natural form, is a creation of the one third of the social working day contributed by II. It is the product of labor in its concrete form, such as the labor of weaving, baking, etc., performed in this department as the subjective element of the labor process. But the constant portion of the value of this product of II re-appears only in a new use-value, in a new natural form, namely that of articles of consumption, while it existed previously in the form of means of production. Its value has been transferred by the labor-process from its old natural form to its new natural form. But this value of these two thirds of the product, or 2000, has not been produced in this year's productive process of II.
III.XX.123

Just as, from the point of view of the labor-process, the product of II is the result of the function of new living labor and means of production previously given to it, which are the material objects in which it incorporates itself, so, from the point of view of the process of reproduction, the value of the product of II, or 3000, is composed

of the new value (500 v + 500 s = 1000) produced by the newly added one third of the social working day and of a constant value, in which two thirds of a previous social working day are embodied, which passed away before the present process of production of II. This portion of the value of the product of II is materialized in a portion of the product itself. It exists in a quantity of articles of consumption valued at 2000, or two thirds of a social working day. This is the new use-form in which it re-appears. The exchange of a portion of the articles of consumption of 2000 IIc for means of production of I equal to I (1000 v + 1000 s) represents, therefore, indeed an exchange of two thirds of a social working day which do not constitute any portion of this year's labor, but passed away previously to this year, for two thirds of the social working day newly added this year. Two thirds of this year's social working day could not serve in the production of constant capital and yet at the same time constitute variable capital plus surplus-value for their own producers, unless they were compelled to exchange with a portion of the value of the annually consumed articles of consumption, in which two thirds of a working day spent and realized, not this year, but previously, are incorporated. It is an exchange of two thirds of this year's working day with two thirds of a preceding working day, an exchange of this year's labor with that of a previous year. This, then explains the riddle, how it is that the product in values of an entire social working day may resolve itself into variable capital plus surplus-value, although two thirds of this working day were not expended in the production of

articles, in which variable capital or surplus-value can be realized, but rather in the production of means of production for the replacement of capital consumed during this year. The explanation is simply that two thirds of the value of the product of II, in which the capitalists and laborers of I realize the value of the variable capital and surplus-value produced by them (and which constitute two thirds of the value of the entire annual product), are, so far as their value is concerned, the product of two thirds of a social working day passed previously to this year.
III.XX.124

The sum of the social product of I and II, comprising means of production and articles of consumption, so far as its concrete use-value in its natural form is concerned, is indeed the result of this year's labor, but only to the extent that this labor is regarded as useful and concrete, not as an expenditure of labor-power and creator of values. And even so, it is concrete labor only in the sense that the means of production have transformed themselves into this year's new product by dint of the living labor operating on them. On the other hand, it is also true that this year's labor could not have transformed itself into products without the help of means of production, of instruments of production and materials, which existed independently of it.

VIII. THE CONSTANT CAPITAL IN BOTH DEPARTMENTS.

III.XX.125

The analysis of the total value of the product of 9000, and of the categories into which it is divided, does not present any greater difficulties than that of the value produced by some individual capital. It is rather identical with it.

III.XX.126

In the present instance, the entire social product of this year contains three social working days, each of one year. The value represented by each one of these working days is 3000, so that the value of the total product is 3 × 3000, or 9000.

III.XX.127

Furthermore, the following portions of this working time belong to a period previous to that of the process of production which we now analyze: In department I, four thirds of a working day (with a product valued at 4000), and in department II, two thirds of a working day (with a product valued at 2000), making a total of two social working days with a product valued at 6000. For this reason, 4000 Ic + 2000 IIc = 6000 c figure as the value of the means of production, or value of the constant capital, re-appearing in the total product of society.

III.XX.128

Furthermore, one third of the social working day of one year newly added by department I is necessary labor, or labor reproducing the value of the variable capital of 1000 Iv and paying the price of the labor employed by I. In the same way, one sixth of the social working day of II is necessary labor valued at 500. Hence we have 1000 I v + 500 II v = 1500 v, expressing the value of one half of the social working day, the value of the first half of the working day added this year and consisting of necessary labor.
III.XX.129

Finally, in department I, one third of the social working day of this year, with a product valued at 1000, is surplus-labor, and one sixth of one working day in department II, with a product valued at 500, is likewise surplus-labor. Together they constitute the other half of the newly added social working day, with a total value of surplus-labor amounting to 1000 I s + 500 II s = 1500 s.
III.XX.130

This, then, is the situation:
III.XX.131

Constant portion of capital in terms of the value of the social product (c): Two working days expended previously to the present process of production, worth 6000 in value.
III.XX.132

Necessary labor (v) expended during the present year: One half of one working day expended during the present year, worth 1500 in value.
III.XX.133

Surplus-labor (s) expended during the present year: One-half of one working day expended during the present year, worth 1500 in value.
III.XX.134

Product in values of annual labor (v + s), 3000.
III.XX.135

Total value of product (c + v + s), 9000.
III.XX.136

The difficulty, then, does not consist in the analysis of the social product in values. It arises in the comparison of the component parts of the value of the social product with its material elements.
III.XX.137

The constant, merely re-appearing, portion of value is equal to the value of that part of this product which consists of means of production, and it is incorporated in that part.
III.XX.138

The product in values of the current year, equal to v + s, is equal to the value of that part of this product, which consists of articles of consumption, and is incorporated in it.
III.XX.139

But with the exception of cases immaterial for this analysis, means of production and articles of consumption are vastly different kinds of commodities, products of widely different natural forms and use-value, and, therefore, products of radically different classes of concrete labor. The labor which employs machinery in the production of necessities of life is vastly different from the labor which makes machinery. The entire working day of the current year, which is 3000 in terms of value, figures as an expenditure in the production of articles of consumption valued at 3000, in which no portion of any constant value re-appears, since these 3000, equal to 1500 v + 1500 s, resolve themselves only into variable capital-value and surplus-value. On the other hand, the constant capital-value of 6000 re-appears in a class of products quite different from articles of consumption, namely in means of production, while as a matter of fact no portion of the present annual working day figures as an expenditure in the production of these new products. It appears rather that this entire working day consists only of classes of labor which do not result in means of production, but in articles of consumption. We have already solved this mystery. The product in values of the labor of the present year is

equal to the value of the products of department II, the total value of the newly produced articles of consumption. But the value of these products is greater by two thirds than that portion of the annual labor which has been expended in the production of articles of consumption (department II). Only one third of the annual labor has been expended in their production. Two thirds of this annual labor have been expended in the production of means of production, that is to say, in department I. The value of the product created during this time in I, equal to the variable capital-value plus surplus-value produced in I, is equal to the constant capital-value of II re-appearing in articles of consumption of II. Hence they may be mutually exchanged and take one another's place in their natural form. The total value of the articles of consumption of II is, therefore, equal to the sum of the new product in values of I and II, or II (c + v + s) is equal to I (v + s) + II (v + s), in other words, equal to the sum of the new values produced by the labor of the current year in the form of v + s.
III.XX.140

On the other hand, the total value of the means of production of I is equal to the sum of the constant capital-values re-appearing in the form of means of production of I and in that of articles of consumption of II, in other words, equal to the sum of the constant capital-values reappearing in the total product of society. This total value is equal in terms of value to four thirds of a working day

preceding the process of production of I and two thirds of a working day preceding the process of production of II, in all equal to two annual working days.
III.XX.141

The difficulty in the analysis of the annual social product arises, therefore, from the fact that the constant portion of value is represented by a different class of products (means of production) than the new portion of value (v + s) added to this constant portion and represented by articles of consumption. Thus the appearance is created, so far as the question of values is concerned, as though two thirds of the consumed mass of products were reproduced in a new form, without any labor having been expended by society in their production. This is not so in the case of an individual capital. Every individual capitalist employs some particular concrete class of labor, which transforms the means of production peculiar to it into products. For instance, the capitalist may be a manufacturer of machines, the constant capital expended by him during the current year may be 6000 c, the variable capital 1500 v, the surplus-value 1500s, the product 9000, represented, say, by 18 machines of 500 each. The entire product in this instance consists of the same form, of machines. If he produces various kinds, each one is calculated separately. The entire product in commodities is the result of the labor expended during the current year in machine manufacture by a combination of the same concrete labor with the same kind of means of production.

The various portions of the value of the product therefore present themselves in the same natural form: 12 machines represent 6000 c, 3 machines 1500 v, and 3 machines 1500 s. It is evident that the value of the 12 machines is equal to 6000 c, not merely because there is incorporated in these machines labor performed previously to the manufacture of these machines and not expended in their making. The value of the means of production for 18 machines did not transform itself into machines of its own doing, but the value of these 12 machines (consisting itself of 4000 c + 1000 v + 1000 s) is equal to the total value of the constant capital-value contained in the 18 machines. The machine manufacturer must, therefore, sell 12 of the 18 machines, in order to recover his expended constant capital, which he requires for the reproduction of 18 new machines. On the other hand, the thing would be inexplicable, if the result of the labor expended solely in the manufacture of machines, were to be: On the one hand, 6 machines of 1500 v + 1500 s, on the other iron, copper, screws, belts, etc., to the amount of 6000 s, in other words, the natural means of production of the machines which the individual machine-building capitalist does not produce himself, but must secure by way of the process of circulation. And yet it seemed at the first glance as though the reproduction of the annual product of society took place in this absurd way.

III.XX.142

The product of an individual capital, that is to say, of every aliquot part of the social capital endowed with a life of its own and acting independently, has some natural form. The only condition is that this product must have a certain use-value, which endows it with the character of a member of the world of commodities fit for circulation. It is immaterial and a matter of hazard, whether or not it can go back as a means of production into the same process of production from which it came as a product, in other words, whether that portion of its value as a product, in which the constant capital is incorporated, has a natural form, in which it can actually serve again as constant capital. If it has not, then this portion of the value of the product is reconverted into the form of its material elements by means of sale and purchase, and thus the constant capital is reproduced in the natural form adapted to its function.
III.XX.143

It is different with the product of the total social capital. All the material elements of reproduction in their natural form must be a part of this product. The consumed constant portion of capital can be reproduced by the production as a whole only to the extent that the entire reappearing constant capital is represented in the product by the natural form of new means of production, which can actually serve as constant capital. Simple reproduction being assumed, the value of that portion of the product which consists of means of

production must be equal to the constant portion of the value of social capital.
III.XX.144

Furthermore: Individually considered, the capitalist produces in the value of his product by means of the newly added labor only his variable capital plus surplus-value, while the constant value is transferred by the concrete form of the newly added labor to the product.
III.XX.145

Socially considered, that portion of the social working day which produces means of production, adding new value to them and transferring to them at the same time the value of the means of production consumed in their manufacture, creates nothing but new constant capital, which is intended to replace that consumed in the shape of the old means of production, that is to say of the constant capital consumed in department I and II. It creates only product intended for productive consumption. The entire value of this product, then, is a value which can serve only as a new constant capital, which can buy back only constant capital in its natural form, and which, for this reason, resolves itself neither into variable capital nor surplus-value, looking at it from the social point of view. On the other hand, if that portion of the social working day which produces articles of consumption does not create any portion of the social capital

intended for reproduction, it creates only products intended, in their natural form, to realize the value of the variable capital and surplus-value of departments I and II.

III.XX.146

Speaking of looking at things from the point of view of society as a whole, in this instance at the aggregate product of society, which comprises both the reproduction of social capital and individual consumption, we must not follow the manner copied by Proudhon from bourgeois economy, which looks upon this matter as though a society with a capitalist mode of production would lose its specific historical and economic characteristics by being taken as a unit. Not at all. We have, in that case, to deal with the aggregate capitalist. The aggregate capital appears as the capital stock of all individual capitalists combined. This stock company shares with many other stock companies the peculiarity that every one knows what he puts in, but not what he will get out of it.

IX. A RETROSPECT ON ADAM SMITH, STORCH, AND RAMSAY.

III.XX.147

The total value of the social product amounts to 9000 equal to 6000 c+1500 v+1500 c, in other words, 6000 represent the value of the means of production, and 3000 that of the articles of consumption.

The value of the social revenue (v + s), then, amounts to only one third of the value of the total product, and the totality of the consumers, laborers as well as capitalists, can draw on the total social product for commodities only to the amount of this third, for the purpose of individual consumption. On the other hand, 6000, or two thirds, of the value of the product, are the value of the constant capital which must be reproduced in its natural form. Means of production to this amount must again be incorporated in the productive fund. Storch recognizes this without being able to prove it: "It is clear that the value of the annual product is distributed partly to capital and partly to profits, and that each one of these portions of the value of the annual product is regularly employed in buying the products which the nation needs both for the maintenance of its capital and for stocking its fund for consumption. * * * * The products which constitute the capital of a nation are not consumable." (Storch, Considérations sur la nature du revenu national. Paris, 1824, page 150.)
III.XX.148

Adam Smith, however, has promulgated this strange dogma, which is believed to this day, not only in the previously mentioned form, according to which the entire value of the social product resolves itself into revenue, that is to say, into wages plus surplus-value, or, as he expresses it, into wages plus profit (interest) plus ground rent, but also in the still more popular form, according to which the consumers

must ultimately pay to the producers the entire value of the product. This is to this day one of the best established commonplaces, or rather of the eternal truths of the so-called science of political economy. This is illustrated in the following plausible manner: Take any article, for instance linen shirts. First, the spinner of linen yarn has to pay the flax grower the entire value of the flax, in other words the value of flax seed, fertilizers, cattle feed, etc., plus the value transferred to the product from the fixed capital of the flax grower, such as buildings, agricultural implements, etc.; furthermore the wages paid in the production of the flax; the surplus-value incorporated in the flax (profit, ground rent); finally the cost of transportation of the flax from its place of production to the spinnery. Next, the weaver has not only to reimburse the spinner for linen yarn, for the price of the flax, but also for that portion of the value of machinery, buildings, etc., in short of the fixed capital, which is transferred to the yarn, furthermore all the auxiliary materials consumed in the spinning process, the wages of the spinners, the surplus-value, etc., and so forth in the case of the bleaching process, the transportation of the finished linen, and finally the shirtmaker, who has to pay the entire price of all preceding producers, who supplied him only with his raw material. There is now a further addition of value by his hands, either by means of constant capital which is consumed in the shape of materials of labor, auxiliary materials, etc., used in the making of shirts, or by means of labor expended in it, which adds the value of the wages of the shirtmakers plus the surplus-value of the shirt

manufacturer. Now let this entire product in shirts cost ultimately 100 p. st., and let this be the aliquot part of the total annual value in products expended by society in shirts. The consumers of the shirts pay these 100 p. st., that is to say the value of all the means of production, and of the wages plus surplus-value of the flax grower, spinner, weaver, bleacher, shirtmaker, and all carriers. This is quite true. Indeed, every child can see that. But now they continue: The same is true of the value of all other commodities. It should rather be said that this is true of the value of all articles of consumption, of the value of that portion of the social product which passes into consumption, in other words, that portion of the value of the social product which may be expended as revenue. It is true that the sum of the value of all these commodities is equal to the value of all the means of production (constant portions of capital) consumed in their creation, plus the value added by the last labor expended on them (wages plus surplus-value). Hence the totality of the consumers can pay for this entire sum of values, because, although the value of each individual commodity is made up by c + v + s, nevertheless the sum of the values of all commodities passing into consumption, taken at its maximum, can be equal only to that portion of the value of the social product, which resolves itself into v + s, in other words, equal to that value which the labor expended during the current year has added to the existing means of production representing the value of the constant capital. As for the value of the constant capital, we have seen that it is reproduced out of the mass of social products in a

twofold way. First, by an exchange of the capitalists of II, who produce articles of consumption, with the capitalists of I, who produce the means of production. And here is the source of the phrase that what is capital for one is revenue for the other. But this is not the actual state of affairs. The 2000 II c, existing in the shape of articles of consumption valued at 2000, constitute a constant capital-value for the capitalists of class II. They cannot consume it themselves, although the product must be consumed on account of its natural form. On the other hand, the 2000 I (v + s) are wages plus surplus-value produced by the capitalist and working classes of I. They exist in the natural form of means of production, of things in a shape in which their own value cannot be consumed. We have here, then, values to the amount of 4000, only one half of which, either before or after the change, reproduce constant capital, while the other half form revenue. In the second place, the constant capital of I is reproduced in its natural form, partly by exchange among the capitalists of I, partly by reproduction in a natural form in each individual business.
III.XX.149

The phrase that the entire annual value in products must be ultimately paid by the consumer would be correct only in the case that we were to include in the term consumer two vastly different classes, namely individual consumers and productive consumers. But to say that one portion of the product must be consumed productively is

precisely to say that it must serve as capital and cannot be consumed as revenue.
III.XX.150

On the other hand, if we divide the total value of the entire product, equal to 9000, into 6000 c+1500 v+1500 s, and look upon the 3000 (v + s) in the light of a revenue, then the variable capital seems to disappear and capital, socially speaking, seems to consist only of constant capital. For that which appeared originally as 1500 v has resolved itself into a portion of the social revenue, into wages, the revenue of the working class, and has thus lost its character of capital. This conclusion is actually drawn by Ramsay. According to him, capital, socially considered, consists only of fixed capital, but he means by fixed capital the constant capital, that quantity of values which consists of means of production, whether these are instruments or materials of labor, such as raw materials, partly finished products, auxiliary materials, etc. He calls the variable capital a circulating capital: "Circulating capital consists only of subsistence and other necessaries advanced to the workmen previously to the completion of the produce of their labor. * * * * Fixed capital alone, not circulating, is properly speaking a source of national wealth. * * * * Circulating capital is not an immediate agent in production, nor essential to it at all, but merely a convenience rendered necessary by the deplorable poverty of the mass of the people. * * * * Fixed capital alone constitutes an element of cost of production in a national point of

view." (Ramsay, 1, c., pages 23 to 26, selected.) Ramsay defines fixed capital, by which he means constant capital, more closely in the following words: "The length of time during which any portion of the product of that labor" (namely labor bestowed on any commodity) "has existed as fixed capital i.e., in a form in which, though assisting to raise the future commodity, it does not maintain laborers." (Page 59.)

III.XX.151

Here we see once more the confusion created by Adam Smith by drowning the distinction between constant and variable capital in that of fixed capital and circulating capital. The constant capital of Ramsay consists of means of production, his circulating capital of articles of consumption. Both of them are commodities of a given value. The one can no more create any surplus-value than the other.

X. CAPITAL AND REVENUE: VARIABLE CAPITAL AND WAGES.*50

III.XX.152

The entire annual production, the entire product of a year, is the product of the useful labor of that year. But the value of this total product is greater than that portion of it in which the labor-power expended on production during the last year is incorporated. The product in values of this year, the new value created in its course in

the form of commodities, is smaller than the value of the product, that is to say, THE TOTAL VALUE OF THE COMMODITIES FINISHED DURING THE ENTIRE YEAR. The difference obtained by deducting from the total value of the annual product that portion of value which was added by the labor of the last year, is not an actually reproduced value, but merely one re-appearing in a different form of existence. It is value transferred to the annual product from previously existing value, which may be of an earlier or later date, according to the wear of the constant portions of capital which have participated in that year's annual labor-process, a value which may be derived from some means of production which were first created during the year before last or in years even previous to that. It is under all circumstances a value transferred from means of production of former years to the product of the year under discussion.

III.XX.153

Take our formula. We then have after the exchange of the elements, hitherto considered, between I and II, and within II:

(I) 4000 c + 1000 v + 1000 s (these last realized in articles of consumption of II c) = 6000.

(II) 2000 c (reproduced by exchange with I [v + s]) + 500 v + 500 s = 3000.

III.XX.154

Sum of values 9000.
III.XX.155

Value newly produced during the year is incorporated only in v and s. The sum of the product in values of this year is therefore equal to the sum of v + s, that is to say, 2000 I(v + s) + 1000 II (v + s) = 3000. All other portions of value in the products of this year are merely transferred values, derived from the value of means of production. previously produced and consumed in the annual production. Aside from the value of 3000, the current annual labor has not produced anything in the way of values. That 3000 represents its entire annual product in values.
III.XX.156

Now, we have seen that the 2000 I (v + s) of department II replace its 2000 II c in the natural form of means of production. Two thirds of the annual labor, then, expended in department I, have newly produced the constant capital of II, both as regards its value and its natural form. Socially speaking, two thirds of the labor expended during the entire year have created a new constant capital-value, which is realized in a natural form meeting the requirements of department II. The greater portion of the annual labor of society, then, has been spent in the production of new constant capital (means of production representing capital-value) in order to replace

the value of the constant capital expended in the production of articles of consumption. That which distinguishes in this case capitalist society from a society of savages is not, as Senior thinks,*51 that it is a privilege and peculiarity of a savage to expend his labor during a certain time which does not secure for him any revenue convertible into articles of consumption, but the distinction is the following:

(a) Capitalist society employs more of its available annual labor in the production of means of production (and thus of constant capital) which are not convertible into revenue in the form of wages or surplus-value, but can serve only as capital.

(b) When a savage makes bows, arrows, stone hammers, axes, baskets, etc., he knows very well that he did not spend the time so employed in the production of articles of consumption, but that he has simply stocked his supply of means of production, and nothing else. Furthermore, a savage commits a grave economic sin by his utter indifference so far as waste of time is concerned, for Tyler*52 tells us of him that he takes sometimes a whole month to make one arrow.

III.XX.157

The current conception, by which some political economists seek to get rid of the theoretical difficulty, in other words, of the understanding of the real state of affairs, the conception that a thing may be capital for one and revenue for another, and vice versa, is

only partially true, and it becomes wholly wrong, when it is made general, since it then implies a complete misunderstanding of the entire process of transactions taking place in annual reproduction and at the same time a misunderstanding of the actual basis of the partial truth.
III.XX.158

We now review the actual conditions, on which the partial correctness of this conception rests, and we shall at the same time expose the wrong conception of these conditions.
III.XX.159

(1) The variable capital serves as capital in the hands of the capitalist and as revenue in the hands of the wage worker.
III.XX.160

The variable capital exists first in the hands of the capitalist as money-capital; and it performs the function of money-capital, when he buys labor-power with it. So long as it persists in the form of money in his hands, it is nothing but a given value existing in the form of money, in other words, a constant and not a variable magnitude. It is only a potential variable capital, owing to its convertibility into labor power. It becomes actually a variable capital only after divesting itself of its money-form and assuming the form of labor-power serving as an element of productive capital in the capitalist process.

III.XX.161

The money which first served in the function of the money-form of the variable capital for the capitalist, now serves in the hands of the laborer as the money-form of his revenue, which he derives from the ever repeated sale of his labor-power.

III.XX.162

We have here but the simple fact that the money in the hands of the buyer, in this case the capitalist, passes from these hands into those of the seller, in this case a seller of labor-power, the wage-worker. It is not the variable capital which serves twice, first as capital for the capitalist and then as revenue for the laborer. It is merely the same money, which exists first in the hands of the capitalist as the money-form of his variable capital representing a potential variable capital, and which serves in the hands of the laborer as an equivalent for sold labor-power, as soon as the capitalist has converted it into labor-power. But the fact that the same money serves another useful purpose in the hands of the buyer than in those of the seller is a peculiarity of the sale and purchase of all commodities.

III.XX.163

Apologists in political economy present the matter in a wrong light, as we can see best when we keep our eye exclusively, without taking any notice of the following transactions, on the transaction in

circulation indicated by M‘L (a variation of M‘C), the conversion of money into labor-power on the part of the capitalist buyer, which is L‘ M (C‘M), a conversion of the commodity labor-power into money, on the part of the seller, the laborer. They say: "The same money realizes in this instance two capitals; the buyer‘the capitalist‘converts his money-capital into living labor-power, which he incorporates in his productive capital; on the other hand, the seller, the laborer, converts his commodity, his labor-power, into money, which he spends as his revenue, and this enables him to resell his labor-power in ever repeated turns and thereby to maintain it. His labor-power, then, represents his capital in the form of a commodity, which yields him a continuous revenue." Labor-power is indeed his wealth (ever self-renewing and reproductive), not his capital. It is the only commodity which he must and can sell continually, in order to live, and which does not serve as capital until it reaches the hands of the capitalist. The fact that a man is continually compelled to sell his labor-power (himself) to another man proves to those apologetic economists that he is a capitalist, for lo! he is continually selling his "commodity," himself. In that case, a slave is also a capitalist, although he is sold by another for once and all as a commodity, for the nature of this commodity, a laboring slave, has the peculiarity that its buyer does not only make it work every new day, but also provides it with the food which enables it to do ever new work‘(compare on this point the remarks of Sismondi and Say in their letters to Malthus.)
III.XX.164

(2) In the exchange of 1000 Iv + 1000 Is for 2000 II c, we see that what is constant capital for one (2000 II c) is variable capital and surplus-value, or in short, revenue for others; and what is variable capital and surplus-value (2000 I (v + s), or in short, revenue for one, becomes constant capital for another.
III.XX.165

Let us first look at the exchange of I v for II c, beginning with the point of view of the laborer.
III.XX.166

The aggregate laborer of I has sold his labor-power to the aggregate capitalist of I for 1000; he receives this value in money as his wages. With this money, he buys from II articles of consumption of the same value. The capitalist of II meets him only in the role of a seller of commodities, nothing else, even if the laborer buys from his own capitalist, as he does in the exchange of 500 II v, as we have seen above. The form of circulation through which his commodity, labor-power, passes, is that of the simple circulation of commodities for the mere purpose of consumption in the satisfaction of needs, the form C (labor-power)‘M‘C (articles of consumption). The result of this transaction in circulation is that the laborer maintains himself as a labor-power for a capitalist, and in order to continue maintaining himself as such, he must continually renew the transaction L (C)‘M‘C.

His wages are realized in articles of consumption, they are spent as revenue, and, taking the working class as a whole, are again and again spent as a revenue.
III.XX.167

Now let us look at the same transaction, the exchange of I v for II c, from the point of view of the capitalist. The entire commodity-product of II consists of articles of consumption, of things intended for annual consumption, serving in the realization of revenue for some one, in the present case for the aggregate laborer of I. But so far as the aggregate capitalist of II is concerned, one portion of his commodity-product, equal to 2000, is now the form of the constant portion of the value of his productive capital converted into commodities. It must be reconverted from the form of commodities into its natural form, in which it may serve again as the constant portion of a productive capital. What the capitalist of II has accomplished so far is that he has reconverted one half (1000) of the constant portion of his capital, which had been reproduced in the shape of commodities, into the form of money by means of sale to the laborers of I. Hence it is not the variable capital I v, which has been exchanged for this first half of the value of the constant capital of II, but simply the money which served I as money-capital in the exchange for labor-power has thus been transferred to the possession of the seller of labor-power, and for him it did not represent any capital, but merely revenue in the form of money, which is to be expended in the purchase of articles of

consumption. The money to the amount of 1000, on the other hand, which has come into the hands of the capitalists of II by means of the transaction with the laborers of I, cannot as yet serve as the constant element of the productive capital of II. For the present it is but the money-form of the commodity-capital of II, to be commuted into fixed or circulating portions of constant capital. Department II now buys with the money received from the laborers of I, the buyers of its commodities, means of production from I to the amount of 1000. By this means the constant value of the capital of II is renewed to the extent of one half of its total amount in its natural form, in which it can serve once more as an element of the productive capital of II. The circulation in this instance took the course C‘M‘C, that is to say, articles of consumption to the amount of 1000‘money to the amount of 1000‘means of production to the amount of 1000.
III.XX.168

But C‘M‘C represents here the movement of capital. C, when sold to the laborers, is converted into M, and this M is converted into means of production. It is the reconversion of commodities into the material elements of which this commodity is made. On the other hand, just as the capitalist of II plays only the role of a buyer of commodities with regard to I, so the capitalist of I acts only as a seller of commodities with regard to II. Department I bought originally labor-power valued at 1000 with that amount of money intended for service

as variable capital. It has therefore received an equivalent for the 1000 v which it expended in money. This money now belongs to the laborers, who spend it in purchases from II. Department I cannot recover this money from II unless it secures the amount by the sale of commodities of the same value to II.
III.XX.169

Department I first had a certain sum of money amounting to 1000 and destined to serve as variable capital. The money performs this service by its exchange for labor-power to the same amount. The laborer in his turn supplied as a result of the process of production a quantity of commodities (means of production) to the amount of 6000, of which one sixth, or 1000, are equivalent in value to the variable portion of capital advanced in money. This variable portion of value no more serves as variable capital so long as it retains the form of commodities than it did while in the form of money. It serves as variable capital only after its conversion into living labor-power, and only so long as this labor-power serves in the process of production. So long as this value was incorporated in money, it represented only potential variable capital. But it had at least a form, in which it was immediately convertible into labor-power. But in the form of commodities, the same variable value is but potential money, it must first assume the form of money by means of the sale of commodities, in the present instance by the sale of 1000 in value of commodities of I to department II. The movement of the circulation passes here

through the form 1000 v (money)‘1000 c (labor-power)‘1000 c (commodities equivalent in value to the variable capital)‘1000 v (money); in other words, M‘C…C‘M (identical with M‘L…C‘M). The process of production intervening between C…C does not belong to the sphere of circulation. It does not figure in the mutual exchange of the various elements of annual reproduction, although this exchange includes the reproduction of all the elements of productive capital, the constant as well as the variable element (labor-power). All the participants in this exchange appear either as buyers, or as sellers, or as both. The laborers appear only as buyers of commodities. The capitalists act alternately as buyers and sellers, and within certain limits only on one side, either as buyers of commodities or as sellers of commodities.
III.XX.170

The result is that department I possesses once more the variable part of the value of its capital in the form of money, from which alone it is immediately convertible into labor-power, in other words, department I once more holds its variable capital value in the only form in which it can again be advanced as an actual variable element of its productive capital. On the other hand, the laborer must again act as a seller of commodities, of his labor-power, before he can act as a buyer of commodities.
III.XX.171

So far as the variable capital of department II (500 II v) is concerned, the circulation between the capitalists and laborers of the same department takes place without any intermediate transactions, since we look upon it as taking place between the aggregate capitalist and the aggregate laborer of II.
III.XX.172

The aggregate capitalist of II advances 500 v for the purchase of labor-power to the same amount. In this case, the aggregate capitalist is a buyer, the aggregate laborer a seller. Thereupon the laborer acts as a buyer of a portion of the commodities produced by himself, using the money received for his labor-power. In this case, the capitalist is the seller. The laborer has reproduced for the capitalist the money paid in the purchase of labor-power by means of a portion of the newly produced commodity-capital of II, amounting to 500 v in commodities. The capitalist then holds in the form of commodities the same v, which he had in the form of money before the exchange for labor-power; while the laborer has realized the value of his labor-power in money, and uses this money by spending it as his revenue in the purchase of articles of consumption produced by himself. It is an exchange of the revenue of the laborer in money for a portion of the commodities in which he has himself reproduced 500 of the value of the variable capital of the capitalist employing him. In this way this money returns to the capitalist of II as the money-form of his variable

capital. An equivalent value of revenue in the form of money thus reproduces variable value of capital in the form of commodities.
III.XX.173

The capitalist does not increase his wealth by recovering the money paid by him to the laborer in the purchase of labor-power through the sale of an equivalent quantity of commodities to the laborer. He would really pay the laborer twice, if he were to pay him first 500 in the purchase of labor-power, and then give him in addition thereto a quantity of commodities valued at 500, after the laborer had produced them. On the other hand, if the laborer were to produce nothing but an equivalent in commodities valued at 500 for the price of his labor-power of 500, the capitalist would be no better off after the transaction than before it. But the laborer has actually reproduced a product of 3000. He has preserved the constant portion of the value of the product, that is to say, the value of the means of production incorporated in the product, to the amount of 2000, by converting it into a new product. He has furthermore added to this existing value a value of 1000 (v + s). (The idea that the capitalist grows richer by the return of 500 in money is advanced by Destutt de Tracy, as shown in detail in section XIII of this chapter.)
III.XX.174

By the purchase of articles of consumption to the value of 500 on the part of the laborer of II, the capitalist of II recovers the value of 500

II v, which he had just held in the shape of commodities, but which he now holds in the form of money, in which he advances it originally. The immediate result of this transaction, as of any other sale of commodities, is the conversion of a given value from the form of commodities into that of money. Nor is the resulting reflux of the money to its point of departure anything specific. If capitalist of II had bought, with 500 of money, commodities from the capitalist of I, and then sold to the capitalist of I commodities valued at 500, he would likewise have recovered 500 in money. This sum of 500 in money would merely have served for the circulation of commodities valued at 1000, and according to a law previously mentioned, the money would have returned to the one starting it into circulation. III.XX.175

But the 500 in money, which have returned to the capitalist of II, represent at the same time a renewed potential variable capital. Why is this so? Money, and money-capital, is a potential variable capital only to the extent that it is convertible into labor-power. The return of 500 p. st. in money to the capitalist of II is accompanied by the return of the labor-power of II to the market. The return of both of these at opposite poles‘and to this extent the reappearance of 500 in money not merely in the capacity of money, but of variable capital in the form of money‘is conditioned on one and the same process. The money of 500 returns to the capitalist of II, because he sold to the laborers of II articles of consumption valued at 500, for which the

laborer spent his wages, in order to maintain himself and his family and thus his labor-power. In order to be able to live on and act again as a buyer of commodities he must again sell his labor-power. The return of 500 in money to the capitalist of II is therefore at the same time a return, or a staying, of labor-power in the capacity of a commodity purchasable with 500 in money, and thereby a return of 500 in money to its capacity of potential variable capital.
III.XX.176

As for the v of department II b, which produces articles of luxury, this (II b) v is treated the same as I v. The money which renews the variable capital of the capitalists of II b in the form of money returns to them in a round-about way through the hands of the capitalists of II a. But it makes nevertheless a difference, whether the laborers buy their articles of consumption by direct purchase from the same capitalist producers to whom they sell their labor-power, or whether they buy from capitalists of another department, through whose hands the money returns indirectly to the capitalists of their own department. Since the working class live from hand to mouth, they buy just as long as they have the means. It is different with the capitalists, for instance in the transaction between 1000 II c and 1000 I v. The capitalist does not live from hand to mouth. His compelling motive is the utmost self-expansion of his capital. Now, if circumstances seem to promise greater advantages to the capitalist of II by holding on to his money for a while, instead of immediately

renewing his constant capital, then the return of 1000 II c in money to I is retarded. This implies a retardation in the return of 1000 I v to the form of money, and in that case the capitalist of I cannot continue his business on the same scale, unless he can draw on some reserve capital. Generally speaking, reserve capital in the form of money is always necessary, in order to be able to work without interruption, regardless of the rapid or slow reflux of the variable portion of capital-value in money.
III.XX.177

If the transactions of the various elements of the current annual reproduction are to be investigated, the results of the labor of the preceding year, which has come to a close, must also be taken into consideration. The process of production which resulted in the product of the present year, is past and incorporated in its products, and so much more is this the case with the process of circulation preceding the process of production or running parallel with it, by which potential variable capital is transformed into actual variable capital, in other words, the sale and purchase of labor-power. The labor-market is not a part of the commodity-market which concerns us here. For the laborer has not only disposed of his labor-power before this, but also supplied an equivalent of the price of his labor-power in the shape of commodities, aside from the surplus-value created by him. He has furthermore his wages in his pocket and figures during the present transactions only as a buyer of commodities (articles of

consumption). On the other hand, the annual product must contain all the elements of reproduction, must renew all the elements of productive capital, above all its most important element, the variable capital. And we have seen, indeed, that the result of the present transactions, so far as the variable capital is concerned, is this: The laborer as a buyer of commodities, by means of the expenditure of his wages, and the consumption of the purchased commodities, reproduces his labor-power, this being the only commodity which he has to sell. Just as the money advanced in the purchase of this labor-power by the capitalists returns to them, so labor-power returns to the market to be once more exchanged for this money. The result in the special case of 1000 I v is that the capitalists of I hold 1000 v in money and the laborers of I offer them 1000 in labor-power, so that the entire process of reproduction of I can be renewed. This is one result of the process of circulation.
III.XX.178

On the other hand, the expenditure of the wages of the laborers of I drew on II for articles of consumption to the amount of 1000 II c, transforming them from commodities into money. Department II reconverted them into the natural form of its constant capital, by purchasing from I commodities valued at 1000 v and thus restoring to I the value of its variable capital in money.
III.XX.179

The variable capital of I passes through three metamorphoses, which are only indicated in the circulation of the annual product or do not appear at all in it.
III.XX.180

(1) The first form is 1000 I v in money, which is converted into labor-power of the same value. This transaction does not itself appear in the exchange of commodities between I and II, but its result is seen in the fact that the working class of I approach the capitalist seller of commodities of II with 1000 in money, just as the working class of II approach the capitalist of II with 500 in money in order to buy his 500 II v of commodities.
III.XX.181

(2) The second form is the only one in which variable capital actually varies and serves as variable capital. In this form, a power which creates values takes the place of given values offered in exchange for it. It belongs exclusively to the process of production which is past.
III.XX.182

(3) The third form, in which the variable capital as such performs its function in the process of production, is the annual product in values, which in the case of I amounts to 1000 v plus 1000 s, or 2000 I (v+s). In the place of its original value of 1000 in money we have a value of double this amount, or 2000, in commodities. The variable

capital-value of 1000 is therefore only one half of the product in values created by it as an element of productive capital. The 1000 I v in commodities are an exact equivalent of the variable part of capital originally advanced in money. But in the form of commodities they are but potential money (they do not become money until they are sold), so that they are still less directly money-capital. They finally become money-capital by the sale of the commodities of 1000 I v to II c, and by the hurried reappearance of labor-power as a purchasable commodity, as a material for which 1000 v in money may be exchanged.
III.XX.183

During all these transactions the capitalist of I continually holds the variable capital in his hands; (1) originally as money-capital; (2) then as an element of his productive capital; (3) still later as a portion of the value of his commodity-capital, in the form of the value of commodities; (4) finally once more in money which seeks the company of labor-power for the purpose of exchange. During the process of production, the capitalist has the variable capital in his control as a labor-power creating values, but not as a value of a given magnitude. But since he never pays the laborer until the laborer's power has been applied for a certain length of time, he always holds in his hands the value created by labor for its own reproduction and the surplus-value in excess of this, before he pays him.

III.XX.184

Seeing that the variable capital always stays in the hands of the capitalist, it cannot be claimed in any way that it converts itself into revenue for any one. On the contrary, 1000 I v converts itself into money by its sale to II, whose constant capital it reproduces to the extent of one half in its natural form.

III.XX.185

That which resolves itself into revenue is not the variable capital of I, represented by 1000 v in money. This money has ceased to serve as the money-form of the variable capital of I as soon as it has converted itself into labor-power, just as the money of any other seller of commodities ceases to represent any of his property as soon as he has exchanged it for commodities of some other seller. The transactions which the money paid as wages makes in the hands of the working class are not transactions of variable capital, but of the value of their labor-power converted into money. So are the transactions of the product in values (2000 I (v+s)), created by the working class, only transactions of commodities belonging to the capitalists, which do not concern the laborers. However, the capitalist, and still more his theoretical interpreter, the political economist, can rid himself only with the greatest difficulty of the idea that the money paid to the laborer is still the capitalist's money. If the capitalist is a producer of money, then the variable portion of value‘in other words,

the equivalent in commodities which reproduces for him the price of the labor-power bought by him‘appears immediately in the form of money, so that it can serve again as variable money-capital without the circuitous route of a reflux. But so far as the laborer of II is concerned‘aside from the laborer who produces articles of luxury‘500 v exists in the form of commodities intended for the consumption of the laborer, which he, the aggregate laborer, buys by direct purchase from the same aggregate capitalist to whom he had sold his labor-power. The variable portion of the capital of II, so far as its natural form is concerned, consists of articles of consumption, the greater portion of which are intended for the consumption of the laboring class. But it is not the variable capital which is spent in this form by the laborer. It is the wages, the money of the laborer, which by its realization in these articles of consumption restores to the capitalist the variable capital 500 II v in its money-form. The variable capital II v is reproduced in articles of consumption, the same as the constant capital 2000 II c. The one resolves itself no more into revenue than the other does. In either case it is the wages which resolve themselves into revenue.
III.XX.186

It is a weighty fact in the circulation of the annual production that the expenditure of wages restores both the constant and variable capital to the form of money-capital, in the one case 1000 II c, in the

other 1000 I v and 500 II v (In the case of the variable capital either by means of a direct or indirect reflux).

XI. REPRODUCTION OF THE FIXED CAPITAL.

III.XX.187

A great difficulty in the analysis of the transactions in annual reproduction is the following. Take the simplest form in which the matter may be presented, as follows:

(I.) 4000 c + 1000 v + 1000 s +
(II.) 2000 c + 500 v + 500s = 9000.

III.XX.188

This resolves itself finally into

4000 I c + 2000 II c + 1000 I v + 500 II v + 1000 I s + 500 II s = 6000 c + 1500 v + 1500 s = 9000.

III.XX.189

One portion of the value of the constant capital, to the extent that it consists of instruments of production in the strict meaning of the term

(as a distinct section of the means of production) is transferred from the instruments of labor to the product of labor (commodities); these instruments of labor continue to serve as elements of productive capital in their old natural form. It is their wear and tear, the loss in value experienced by them after a certain period of service, which re-appears as an element of value in the commodities produced by means of them, which is transferred from the instruments of labor to the product of labor. In a question of annual reproduction, therefore, only those elements of fixed capital demand consideration, which last longer than one year. If they are completely worn out within one year, then they must be completely reproduced by the annual reproduction, and the point of issue does not concern them at all. It may happen in the case of machines and other lasting forms of fixed capital‘and it frequently does happen‘that certain parts of them must be completely reproduced within one year, although the organism of the building or machine as a whole lasts a much longer time. These partial organs belong in the same category with the elements of fixed capital which must be reproduced within one year.
III.XX.190

This element of the value of commodities must not be confounded with the cost of repairs. If a commodity is sold, this element is turned into money, the same as all others. But after it has been turned into money, its difference from all other elements becomes apparent. The raw and auxiliary materials consumed in the production of commodities

must be replaced in their natural form, in order that the reproduction of commodities may begin anew (or that the production of commodities in general may be continuous). The labor-power embodied in them must also be renewed by fresh labor-power. For this reason, the money realized on the commodities must be continually reconverted into these elements of productive capital, a conversion of money into commodities. It does not alter the matter that raw and auxiliary materials, for instance, are bought in large quantities in certain intervals, so that they constitute a productive supply, and need not be secured by new purchases during those intervals. Nor does it matter that the money coming in through the sale of commodities, to the extent that it is intended for the purchase of those means of production, may accumulate while they last, so that this portion of constant capital appears temporarily in the role of money-capital suspended from its active function. It is not a revenue-capital. It is productive capital suspended in the form of money. The renewal of the means of production must continue all the time, but the form of their renewal‘with reference to the circulation‘may vary. The new purchases, the transactions in the circulation by which they are renewed, may take place in more or less prolonged intervals, and a large amount may be invested at one stroke in a correspondingly large supply of means of production. Or, the intervals between purchases may be small, and in that case small amounts of money are invested in correspondingly small supplies of means of production. But this does not alter the matter itself. The same applies to labor-

power. Wherever production is carried on continuously throughout the year on the same scale, there the consumed labor-power must be continuously replaced by new labor-power. Where work depends on seasons, or different portions of the work are done at different periods, as in agriculture, there the purchases of labor-power are relatively smaller. But the money received through the sale of commodities, so far as it represents the value of the wear and tear of fixed capital, is not reconverted into that component part of productive capital whose loss in value it makes good. It settles down beside the productive capital and retains the form of money. This precipitation of money is repeated, until the period of reproduction, consisting of a small or great length of time has elapsed, during which the fixed element of constant capital continues to perform its function in the process of production in its old natural form. As soon as the fixed element, such as buildings, machinery, etc., has been worn out and can no longer serve in the process of production, its value exists fully in money, in the sum of money precipitated by the values which had been gradually transferred by the fixed capital to the commodities in whose production it assisted, and which had been converted into money by the sale of these commodities. This money then serves to replace the fixed capital (or its elements, since its various elements have a different durability) in its natural form and thus to renew this part of the productive capital in reality. This money is, therefore, the money-form of a part of the value of the productive capital, namely of its fixed part. The formation of this hoard is thus a factor in the

capitalist process of reproduction, it is the reproduction and storage, in the form of money, of the value of the fixed capital, or its individual elements, until such time as the fixed capital, shall be worn out, until it shall have transferred its entire value to the commodities produced and must be reproduced in its natural form. And this money does not lose the form of a hoard and resume its activity in the process of reproduction of capital promoted by the circulation, until it is reconverted into new elements of fixed capital which will replace the worn-out elements.
III.XX.191

The transactions disposing of the annual product in commodities can no more be dissolved into a mere direct exchange of its individual elements than the simple circulation of commodities can be regarded as identical with a simple exchange of commodities. Money plays a specific role in this circulation, which is particularly marked by the manner in which the value of the fixed capital is reproduced. (It is left to a later analysis to ascertain how the matter would present itself, if production were collective and no longer a production of commodities.)
III.XX.192

Let us now return to our fundamental diagram, which showed in department II the formula 2000 c + 500 v + 500 s. All the articles of consumption produced in the course of the year are in that case

valued at 3000. And every one of the different elements of the commodities composing the total quantity of the product consists, so far as its value is concerned, of 2-3 c + 1-6 v + 1-6 s, or in percentages, 66 2-3 c + 16 2-3 v + 16 2-3 s. The various kinds of commodities of department II may contain different proportions of constant capital. The fixed portion of their constant capitals may be different. The duration of this fixed portion, its wear and tear and therefore that portion of value which it transfers by degrees to the commodities, produced by its assistance, may also differ. But that is immaterial. So far as the process of social reproduction is concerned, it is only a question of transactions between departments II and I. These two departments are here confronted by each other only as social masses. Hence the proportional magnitude of the portion c of the value of the commodity-product of II (which is the only essential one in the settlement of the present question) gives the average proportion, if all the branches of production classed under II are taken as a whole.
III.XX.193

Every kind of commodities (and they are largely the same kinds) classed under 2000 c + 500 v + 500 s thus shares uniformly in the value to the extent of 66 2-3 % c + 16 2-3 % v + 16 2-3 % s. This applies equally to every 100 of the commodities classed under c, or v, or s.
III.XX.194

The commodities in which the 2000 are incorporated may be further divided into

(1) 1333 1-3 c + 333 1-3 v + 333 1-3 s = 2000 c.

III.XX.195

Those under 500 v may be divided into

(2) 333 1-3 c + 83 1-3 v + 83 1-3 s = 500 v.

III.XX.196

Those under 500 s may be divided into

(3) 333 1-3 c + 83 1-3 v + 83 1-3 s = 500 s.

III.XX.197

Now, if we add these three formulae, we have 1333 1-3 c + 333 1-3 c + 333 1-3 c = 2000 c. Furthermore 333 1-3 v + 83 1-3 v + 83 1-3 v=500 v. And the same in the case of s. The addition gives the same total value of 3000 as above.

III.XX.198

The entire constant capital-value contained in the quantity of commodities of II represented by 3000 is therefore incorporated in 2000 c, and neither 500 v nor 500 s contain an atom of it. The same is true of v and s in the case of 500 v and 500 s.
III.XX.199

In other words, the entire quantity of constant capital-value, embodied in the commodities of II and reconvertible either into its natural or its money-form, exists in 2000 c. Everything referring to the conversion of the constant value of the commodities of II is therefore dealing only with the movements of 2000 c of II. And these transactions can be made only with 1000 v + 1000 s of I.
III.XX.200

In the same way, all remarks made with reference to the transactions of the constant capital-value of department I are confined to a consideration of 4000 I c.

(1) The Reproduction of the Value of the Worn-out Part in the Form of Money.

III.XX.201

Let us first consider the diagram

equation

III.XX.202

The exchange of the commodities represented by 2000 II c for commodities of I of the same value (1000 v + 1000 s) is conditioned on the assumption that the entire 2000 II c are reconverted from their natural form into that of the elements of the constant capital of II, produced by I. But the value of the commodities of 2000 c, of which the constant capital of II consists, contains an element making good the loss in the value of fixed capital, which is not to be immediately reproduced in its natural form, but converted into money and accumulated until such time as shall require the natural reproduction of the fixed capital on account of its having been completely worn out. Every year registers the finish of some fixed capital which must be renewed in this or that individual business, or this or that line of industry. In the case of one and the same individual capital, this or that portion of its fixed capital must be renewed, since its elements have a different durability. In examining annual reproduction, even on a simple scale, that is to say, disregarding all accumulation, we do not begin at the very beginning of things. The year which we study is one in the flow of many, it is not the year of the first birth of capitalist production. The various capitals invested in the numerous lines of production of department II

are, therefore, of different age. Just as a great many persons die annually in the service of these lines of production, so scores of fixed capitals expire annually in the same service and must be restored in their natural form by means of the accumulated fund of money. To that extent the exchange of 2000 II c for 2000 I (v + s) implies a conversion of 2000 II c from the form of commodities (articles of consumption) into that of natural elements of constant capital, which consist not only of raw and auxiliary materials, but also of natural elements of fixed capital, such as machinery, tools, buildings, etc. The wear and tear, which must be reproduced in money in the value of 2000 II c, by no means corresponds to the volume of the actively engaged fixed capital, since a portion of this must be reproduced every year in its natural form. The necessary preparation for this reproduction is an accumulation of money in preceding years on the part of the capitalists of II. And the same condition holds good for the current year as well as for the preceding ones.
III.XX.203

In the transaction of I (1000 v + 1000 s) it must be noted that the magnitude I (v + s) does not contain any elements of constant capital, so that none of it implies a reproduction of wear and tear, that is to say, of elements transferred from the fixed portion of some constant capital to the commodities which represent the natural form of v + s. On the other hand, such elements do exist in II c and constitute that portion of value due to fixed capital which is not

immediately converted from money into its natural form, but first accumulated in the form of money. The exchange between I (1000 v + 1000 s) and 2000 II c, therefore, presents the difficulty, that the means of production of I, which are the natural form of (1000 v + 1000 s), are to be exchanged to the full value of 2000 for articles of consumption of II, while the 2000 II c of articles of consumption cannot be offered entirely in exchange for I (1000 v + 1000 s), because a portion of them, corresponding in value to the wear and tear of the fixed capital, must be accumulated in the form of money and do not serve as a medium of circulation during the current period of annual reproduction which we are examining. But the money paying for this element of wear and tear incorporated in the value of 2000 II c can come only from department I, since II cannot pay for its own articles, but must secure payment for them by selling them, and since we have assumed that I (1000 v + 1000 s) buys the full amount of commodities of 2000 II c. Hence department I must supply the money to cover that wear and tear of II c. Now, according to the rules previously determined, money advanced to the circulation returns to that capitalist producer who later on throws an equal amount of commodities into the circulation. It is evident that department I, in buying II c, cannot transfer commodities worth 2000 to department II and yield up to it every time an additional amount of money, without any equivalent returning by way of the circulation. Otherwise department I would buy the commodities II c at a price exceeding their value. If department II actually exchanges its 2000 c for I (1000

v + 1000 s), then it has no further claims on department I, and the money circulating in this transaction returns either to I or to II, according to whether I or II acted first as a buyer. And in that case department II would have reconverted the entire value of its commodity-capital into the natural form of means of production, contrary to our assumption that it would not reconvert an aliquot portion during the current period of annual reproduction into the natural form of fixed elements of its constant capital. Department II could not secure a balance of money in its favor, unless it sold a value of 2000 to department I and bought less than that from department I, for instance, only 1800. In that case department I would have to make good the balance of 200 in money, which would not return to it, because it would not have recovered this amount by an equivalent surrender of commodities to the circulation. Only then could II have a fund of money which it could place to the credit of the wear and tear of its fixed capital. But then we should also have an overproduction of means of production to the amount of 200 on the part of department I, and the basis of our diagram would be destroyed, which assumed reproduction on the same scale, in other words, a complete proportionality between the various systems of production. We should have done away with one difficulty and created another, which would be still worse.

III.XX.204

As this problem offers peculiar difficulties and has never been mentioned by political economy, we shall consider one by one all possible solutions (at least apparent solutions), or rather all possible formulations of the problem.
III.XX.205

In the first place, we had just assumed that department II sells commodities valued at 2000 to department I, but buys from it only 1800 worth. The value of the commodities of 2000 c contains 200 for wear and tear of fixed capital, which must be accumulated as money. The value of 2000 c would therefore be dissolved into 1800, which would be exchanged for means of production of I, and 200 for the reproduction of worn-out elements of fixed capital, which would be held in the form of money after the sale of 2000 II c to department I. Expressed in terms of value, this would be 2000 II c = 1800 c + 200 w, this w standing for wear and tear.
III.XX.206

We should then be studying the transaction

equation

III.XX.207

Department I buys with 1000 p. st., which the laborers have received as wages in payment for their labor-power, 1000 II c of articles of consumption. Department II buys with the same 1000 p. st. means of production from department I from the lot 1000 v. The capitalists of I thus recover their variable capital in the form of money and can employ it next year in the purchase of labor-power to the same amount, that is to say, they can reproduce the variable portion of their productive capital in its natural form.‘Department II furthermore advances 400 p. st. and buys means of production from the lot I s, and department I s buys with the same 400 p. st. articles of consumption from II c. The 400 p. st. advanced by the capitalists of II have thus returned to them, but only as an equivalent for sold commodities. Department I now buys from II articles of consumption to the amount of 400 p. st.; II buys from I 400 worth of means of production, thereby returning the 400 p. st. to department I.
III.XX.208

So far, then, we have the following calculation: Department I b throws into circulation 1000 v + 800 s in commodities; it also throws into circulation, in money, 1000 p. st. of wages and 400 p. st., thus facilitating its transaction with II. After the transaction is closed, department I has 1000 v in money, 800 s exchanged for articles of consumption from 800 II c, and 400 p. st. in money.
III.XX.209

Department II throws into circulation 1800 c in commodities (articles of consumption) and 400 p. st. in money. At the close of the transaction it has 1800 in commodities (means of production from department I) and 400 p. st. in money.
III.XX.210

There still remain on the side of department I 200 s in means of production, and on the side of II 200 c (w) in articles of consumption.
III.XX.211

According to our assumption department I buys with 200 p. st. the articles of consumption II w, valued at the same amount. But II holds these 200 p. st., since 200 w represents wear and tear and is not immediately reconverted into means of production. Therefore 200 I s cannot be sold. One-tenth of the surplus-value of I cannot be realized by any exchange, cannot be converted from the natural form of means of production into that of articles of consumption.
III.XX.212

This does not only contradict our assumption of reproduction on a simple scale, but it is not even a hypothesis which would explain the payment of 200 II w in money. It is another way of saying that it cannot be explained. Since it cannot be demonstrated in what manner 200 w is converted into money, it is assumed that department I is

obliging enough to supply the money, just because it is not able to convert its own remainder of 200 s into money. This is as much a legitimate method of analysis as the assumption that 200 p. st. fall every year from the clouds in order to convert 200 II w into money. III.XX.213

But the absurdity of such an assumption does not become evident at once, if I s, instead of appearing, as it does in this case, in its primitive mode of existence‘that is to say as an element of the value of means of production, as an element of the value of commodities which must be converted into money by their capitalist producers‘ appears in the hands of capitalist stockholders, for instance as ground rent in the hands of land owners, or as interest in the hands of money-lenders. Now, if that portion of the surplus-value of commodities, which the industrial capitalist yields in the form of ground rent or interest to other shareholders in the surplus-value, cannot be in the long run converted into money by the sale of the commodities, then there is an end to the payment of rent and interest, and the land owners or recipients of interest can no longer serve in the role of miraculous interlopers, who convert aliquot portions of the annual reproduction into money by spending their revenue. The same is true of the expenditures of all so-called unproductive laborers, state officials, physicians, lawyers, etc., and others who serve economists as an excuse for explaining inexplicable things, in the role of the "general public."

III.XX.214

Nor does it improve the matter, if the direct transaction between departments I and II, the two great departments of capitalist producers, is circumvented and the merchant is dragged in as a mediator, in order to overcome all difficulties with his "money." In the present case, for instance, 200 I s must ultimately be sold to the industrial capitalists of II. It may pass through the hands of a number of merchants, but the last of them will find himself in the same predicament, in which the capitalists of I were at the outset, that is to say he cannot sell the 200 I s to the capitalists of II. And this amount, being arrested in its course, cannot renew the same process with department I.

III.XX.215

We see, then, that, aside from our ultimate purpose, it is quite necessary to view the process of reproduction in its fundamental simplicity, in order to get rid of all obscuring interference and dispose of the false subterfuges, which assume the semblance of scientific analysis, but which cannot be removed so long as the process of social reproduction is immediately analyzed in its concrete and complicated form.

III.XX.216

The law that under normal conditions of reproduction‘whether it be on a simple or on an enlarged scale‘the money advanced by the capitalist producer to the circulation must return to its point of departure (no matter whether the money is his own or borrowed) excludes decidedly the hypotheses that 200 II w can be converted into money by an advance of money on the part of department I.

(2) The Reproduction of Fixed Capital in its Natural Form.

III.XX.217

Having disposed of the above hypothesis, only such hypotheses remain as assume the possibility of a reproduction of the worn-out fixed capital partly in money and partly in its natural form.
III.XX.218

We had assumed in the preceding case
III.XX.219

(a) That 1000 p. st. had been paid in wages by department I and spent by the laborers for articles of consumption of II c to the same amount.
III.XX.220

It is a simple affirmation of fact that these 1000 p. st. are advanced by I in money. Wages must be paid in money by the various capitalist producers. This money is then spent by the laborers for articles of consumption and serves the sellers of articles of consumption in their turn as a medium of circulation in the conversion of their constant capital from a commodity-capital into a productive capital. It passes indeed through many channels (store keepers, house owners, tax collectors, unproductive laborers, such as physicians, etc., who are needed by the laborer himself) and therefore it flows only in part directly from the hands of the laborer of I into those of the capitalist of II. Its flow may be retarded more or less and the capitalist may therefore require more reserve funds of money. But all this is ruled out of the analysis of the simplest fundamental form. III.XX.221

(b) We had furthermore assumed that department I advances at a certain time 400 p. st. in money for the purchase of articles from II and that this money returns to it, while at some other time department II advances also 400 p. st. for the purchase of commodities from I and likewise recovers this money. This assumption must be granted, for it would be arbitrary to think that only the capitalist class of I, or only that of II, should advance the money required for the exchange of their commodities. Now, since we have shown (under 1) that it would be absurd to think that department I should throw money into circulation in order to promote the

conversion of 200 II w into money, there would remain only the seemingly still more absurd hypothesis that department II itself should advance this money, by which that portion of the value of its commodities which makes good the depreciation of its fixed capital through wear and tear is converted into money. For instance, that portion of value which is lost by the spinning machine of Mr. X. in the process of production re-appears as a portion of the value of the yarn. That which his spinning machine loses on the one hand through wear and tear, is supposed on the other hand to be accumulated by him in money. Now take it that X. buys 200 p. st.'s worth of cotton from Y. and advances 200 p. st. in money for this purpose. Y then buys from him 200 p. st.'s worth of yarn, and X. now accumulates this money as a fund for the reproduction of the worn-out portion of his machine. This would simply amount to the statement that X., aside from his production, its product, and the sale of this product, keeps 200 p. st. in reserve, in order to make good to himself the depreciation of his machine, in other words, that he not only loses 200 p. st. by the depreciation of his machine, but must also put up 200 p. st. additional every year out of his own pocket in order to be finally able to buy a new spinning machine.
III.XX.222

This looks only seemingly absurd. For the producers of department II are capitalists whose fixed capital is in various stages of its reproduction. In the case of some of them it has arrived at the stage

where it must be entirely renewed in its natural form. In the case of the others it is more or less removed from this stage. All the capitalists of these last named stages have this in common, that their fixed capital is not actually reproduced, that is to say, not actually renewed in its natural form by a new specimen of the same kind, but that its value is successively accumulated in money. The first class of the capitalists of II are in the same (or almost the same) position as they were at the establishment of their business, when they came on the market with their money-capital in order to convert this money partly into constant (fixed and circulating) capital, partly into labor-power (variable capital). They have once more to advance this money to the circulation, the value of fixed constant capital as well as that of circulating constant and variable capital.
III.XX.223

Hence, if we assume that half of the 400 p. st. thrown into circulation by the capitalist class of II for the purpose of transacting business with department I comes from those capitalists of II who have to reproduce by means of the sale of their commodities not only their means of production so far as they are circulating capital, but also to buy with money new fixed capital in its natural form, while the other half of the capitalists of II reproduce with their money only the circulating portion of their constant capital in its natural form, but not the fixed portion, then there is no contradiction in the statement that these 400 p. st., when returned by department I in exchange for

articles of consumption, are variously distributed among these two classes of department II. They return to department II, but they do not return into the same hands. They are distributed within this department and pass from one of its sections to another.
III.XX.224

One section of II has secured means of production whose value is covered by their commodities, and has furthermore converted 200 p. st. of money into natural elements of new fixed capital. The money thus spent does not return to this section by way of the circulation until after a succession of years and is gradually accumulated by the sale of products created by this fixed capital and bearing the value of its worn-out portion.
III.XX.225

But the other section of II did not purchase any commodities from I for 200 p. st. That section is rather paid with the money which the first section of II spent for elements of its fixed capital. The first section of II has its fixed capital-value once more in a natural form, while the second section is still engaged in accumulating money for the purpose of renewing its fixed capital later on.
III.XX.226

The basis on which we now have to work, after the previous transactions have been closed, is the remainder of the commodities

still to be exchanged by the two departments; 400 s on the part of I, and 400 c on the part of II.*53 We assume that II advances 400 p. st. in money for the exchange of commodities aggregating 800 in value. One-half, or 200 p. st., must be advanced under all circumstances by that section of II c which has accumulated 200 in money for making good the depreciation by wear and tear and which has to reconvert this fund into the natural form of its fixed capital. III.XX.227

Just as constant capital-value, variable capital-value, and surplus-value‘ being the elements of the value of the commodity-capital of II and I‘ may be represented by proportional quantities of the commodities of II and I, so that portion of the value of the constant capital which is not to be converted into the natural form of fixed capital for the present, but rather to be accumulated in money, may like-wise be represented. A certain quantity of commodities of II (in the present case one-half of the remainder of 400, or 200) is as yet the bearer of the value of this depreciation, which has to be converted into money by sale. (The first section of the capitalists of II, who renew their fixed capital in its natural form, may have done so with a portion of its depreciation by means of a corresponding portion of the remaining commodities, but they still have to realize 200 in money.) III.XX.228

The second 200 of the 400 thrown into circulation by II in this remaining transaction buy circulating elements of constant capital from I. A portion of these 200 p. st. may be thrown into circulation by both sections of II, or only by the one not renewing its fixed capital in its natural form.
III.XX.229

Department I, then, secures with these 400 p. st. in the first place commodities valued at 200 p. st., consisting only of elements of fixed capital; in the second place, commodities valued at 200 p. st., reproducing only natural elements of the circulating portion of the constant capital of II. Department I has then sold its entire annual product in commodities, so far as it is sold to department II. And the value of one-fifth, or 400 p. st., is now held in its hands in the form of money. This money is monetized surplus-value which must be spent as revenue for articles of consumption. Department I having bought with its 400 p. st. the entire stock of department II, valued at 400, this money flows back to II.
III.XX.230

Now we may assume three possibilities. Let us name those capitalists of II, who renew their fixed capital in its natural form, section 1, and those, who accumulate the equivalent for the depreciation of fixed capital, section 2. The three possibilities are: (a) That the 400 still remaining in the shape of commodities of II may make good certain

portions of the circulating part of the constant capital of both section 1 and section 2 (perhaps one-half for each); (b) that section 1 has already sold all its commodities, so that section 2 has for sale all of the 400; (c) that section 2 has sold all but the 200 which are the bearers of the value of depreciation.
III.XX.231

Then we have the following distributions:
III.XX.232

(a) Of the value of the commodities still in the hands of department II, namely 400 c, section 1 holds 100, and section 2 holds 300; 200 out of the 300 represent depreciation. In that case section 1 originally advanced 300 of the 400 in money returned by department I for commodities of II, namely 200 in money, for which it secured elements of fixed capital from I, and 100 in money for the promotion of its transaction with I. Section 2, on the other hand, advanced only 100 of the 400, likewise for the promotion of its exchange with I.
III.XX.233

Remember, then, that section 1 advanced 300, and section 2 advanced 100 of the 400.
III.XX.234

Now these 400 return in the following manner: Section 1 recovers only one-third of the money advanced by it, or 100. But it has in place of the other 200 a renewed fixed capital. Section 1 has given money to department I for these elements of fixed capital, but sold no more commodities. So far as this money is concerned, section 1 has met department I for the purpose of buying, but not of selling later on. This money cannot return to section 1, otherwise it would receive the elements of fixed capital from I as a gift. So far as the last third of its advanced money is concerned, section 1 first acted as a buyer of circulating elements of its constant capital. The same money serves department I for the purchase of the remainder of the commodities of section 1, valued at 100. This money, then, returns to section 1 of department II, because it acts as a seller of commodities soon after having acted as a buyer. If this money did not return, then section 1 of department II would have given to department I a sum of 100 in money for commodities of the same value and in addition thereto 100 in commodities, in other words, it would have given away its commodities as a present.
III.XX.235

On the other hand, section 2 receives 300 in money back, while it has advanced only 100 in money. As a buyer it first threw 100 in money into circulation, and these it receives back when acting as a seller. And it receives 200 more, because it acts only as a seller of commodities to that amount, but not in turn as a buyer. Hence the

money cannot return to department I. The value of the depreciation of the fixed capital is thus balanced by the money thrown into circulation by section 1 of department II in the purchase of elements of fixed capital. But it reaches the hands of section 2, not as money of section 1, but as money of department I.
III.XX.236

(b) Under these conditions the remainder of IIc is distributed so that section 1 has 200 in money, and section 2 has 400 in commodities.
III.XX.237

Section 1 has sold all of its commodities, but 200 in money are a changed form of the fixed elements of its constant capital which it has to renew in their natural form. It acts only as a buyer in the present case and receives in exchange for its money the same value in commodities of department I having the natural form of elements of its fixed capital. Section 2 has to throw 200 p. st. into circulation, at a maximum (if department I does not advance any money for the transaction between I and II), since it is to the extent of one-half of the value of its commodities only a seller to I, not a buyer from I.
III.XX.238

It recovers from the circulation 400 p. st. It gets 200, because it has advanced them as a buyer and recovers them as a seller of commodities of the same value. It receives another 200, because it

sells commodities of that value to I without buying an equivalent from I.
III.XX.239

(c) Section 1 has 200 in money and 200c in commodities. Section 2 has 200c (w) in commodities.
III.XX.240

Section 2 has not any advance of money to make under these circumstances, because it does not act any more in the role of a buyer from I, but only as a seller, so that it must wait till some one wants to buy from it.
III.XX.241

Section 1 advances 400 p. st. in money, of which 200 serve for a mutual exchange with department I, while 200 are used to buy from I. The last 200 serve in the purchase of the elements of fixed capital.
III.XX.242

Department I buys from section 1 commodities to the value of 200 with 200 p. st. in money, so that section 1 thus recovers the money it had advanced for its transaction with I. And I buys with the other 200 p. st., which it has likewise received from section 1, commodities valued at 200 from section 2, which thus recovers the value of the depreciation of its fixed capital.

The matter would not be altered by the assumption that, in the case of (c), department II instead of section 1 of this department should advance the 200 in money required for the exchange of the existing commodities. If I buys in that case first 200 in commodities from section 2 of department II‘assuming that this section has only this much left to sell‘then the 200 p. st. do not return to I, since section 2 of department II no longer acts in the role of buyer. But section 1 of department II has in that case 200 p. st. to spend in buying and 200 in commodities to offer for sale, making a total of 400 which it has to trade with department I. 200 p. st. in money then return to department I from section 1 of department II. When I spends them again in the purchase of 200 in commodities from section 1 of department II, then they return to department I as soon as section 1 of department II buys the second half of the 400 in commodities from I. Section 1 of department II has spent 200 p. st. in the purchase of elements of fixed capital, without selling anything in return. Therefore this money does not return to it, but serves to monetize the remaining 200 c of commodities of section 2 of department II, while the 200 p. st. in money advanced by I for the promotion of the transactions return to it by way of section 1 of department II, not section 2. In the place of its commodities of 400 it has secured an equivalent, and the 200 p. st. in money advanced by it for transacting

business to the extent of 800 in commodities have likewise returned to it. Everything is therefore settled.
III.XX.244

The difficulty encountered in the transaction between I (1000 v + 1000 s) and II 2000 c was reduced to the difficulty of balancing accounts between I 400 s and II (section 1) 200 in money plus 200 c in commodities plus (section 2) 200 c in commodities. Or, to make the matter still clearer, 1 (200 s + 200 s) against II (200 in money of section 1 plus 200 c in commodities of section 1 plus 200 c in commodities of section 2).
III.XX.245

Since section I of department II exchanges 200c for commodities of department I representing 200s, and since all the money circulating in this exchange of 400 commodities between I and II returns to him who first advances it, be he I or II, this money promoting the exchange between I and II is not an element of the problem which troubles us here. Or, to express it differently, if we assume that the money used in the transaction between 200 I s (commodities) and 200 IIc (commodities of section 1, department II) serves only as a medium of payment, not as a medium of purchase and therefore not as a "medium of circulation," strictly speaking, it is evident that the means of production valued at 200 are exchanged for articles of consumption valued at 200, because the commodities of 200 I s and

200 IIc (section 1) are equivalent in value, that therefore the money serves here merely ideally, and that neither side has to advance any money to the circulation for the payment of any balance. Hence the problem does not show itself in its clearest form, until we eliminate the commodities of 200 I s and their equivalent, the commodities of 200 IIc (section 1), from both sides.
III.XX.246

After the elimination of these two amounts of commodities of equal value, which balance one another in I and II, the remainder of the transaction shows the problem clearly, namely I 200s in commodities against II (200c in money of section 1 plus 200c in commodities of section 2).
III.XX.247

It is evident that section 1 of department II buys with 200 in money the elements of its fixed capital from 200 I s. The fixed capital of section 1, department II, is there-by renewed in its natural form, and the surplus-value of I, to the amount of 200, is converted form the form of commodities (means of production representing elements of fixed capital) into that of money. Department I buys with this money articles of consumption from section 2, department II, and the result for II is that section 1 has renewed a fixed element of its constant capital in its natural form; and that section 2 has stored up another element in money which is destined to make good the depreciation of

its fixed capital. And this continues every year, until this last element is also renewed in its natural form.
III.XX.248

The first condition is here evidently that this fixed element of constant capital II, which must annually be reconverted into money to the full extent of its value and, therefore, entirely reproduced in its natural form (section 1), should be equal to the annual depreciation of the other fixed element of constant capital II, which continues its function in its old natural form and whose depreciation, represented by the value transferred by it to the commodities produced by it, is first accumulated in money. Such a balance of value would seem to be a law of reproduction on the same scale. This is equivalent to saying that the proportional division of labor in department I, which puts out means of production, must remain unchanged, to the extent that it produces partly circulating, partly fixed portions of the constant capital of department II.
III.XX.249

Before we analyze this more closely, we must first see how the matter looks, if the remaining amount of II c (1) is not equal to the remainder of II c (2). It may be larger or smaller. Let us study either case.

First Case.

III.XX.250

I. 200 s.
II. (1) 220 c in money plus (2) 200 c in commodities.

III.XX.251

In this case II c (1) buys with 200 p. st. the commodities of 200 I s, and I buys with the same money the commodities of 200 II c (2), in other words, that portion of the fixed capital which has to be accumulated in money. This portion is thus converted into money. But 20 II c (1) cannot be reconverted into the natural form of fixed capital.

III.XX.252

It seems that we might remedy this inconvenience by making the remainder of I s 220 instead of 200, so that only 1780 instead of 1800 of the 2000 I would be disposed of by former transactions. Then we should have:

I. 220 s.
II. (1) 220 c in money plus (2) 200 c in commodities.

III.XX.253

Section 1 of II c buys with 220 p. st. in money the 220 I s, and I buys with 200 p. st. the 200 II c (2) of commodities. But now 20 p. st. in money remain on the side of I, a portion of surplus-value which it can hold only in money, without being able to spend it in articles of consumption. The difficulty is thus merely transferred from section 1, department II c, to I s.

III.XX.254

Let us now assume, on the other hand, that section 1, II c, is smaller than section 2, II c, then we have:

Second Case.

III.XX.255

I. 200 s in commodities.
II. (1) 180 c in money plus (2) 200 c in commodities.

III.XX.256

Section 1, department II, buys with 180 p. st. in money the commodities of 180 I s. Department I buys with the same money commodities of the same value from section 2, department II, that is to say, 180 II c (2). There remain 20 I s unsaleable on one side, and

20 II c of section 2 on the other. In other words, commodities valued at 40 remain unsaleable.
III.XX.257

It would not help us any to make the remainder of I equal to 180. It is true, there would not be any surplus in I under these circumstances, but the same surplus of 20 would remain unsaleable in section 2 of department II and could not be converted into money.
III.XX.258

In the first case, where section 1 of department II is greater than section 2 of department II, there remains a surplus of money in section 1 of department II and cannot be converted into fixed capital; or, if the remainder in I s is assumed to be equal to II c (1), the same surplus in money remains inconvertible into articles of consumption in I s.
III.XX.259

In the second case, where II c (1) is smaller than II c (2), there remains a deficit of money on the side of 200 I s and II c (2), and an equal surplus of commodities on both sides, or, if the remainder of I s is assumed to be equal to II c (2), there remains a deficit of money and a surplus of commodities in II c (2).
III.XX.260

If we assume the remainder of I s to be always equal to II c (1)‘ seeing that production is determined by demand, and reproduction is not altered by the fact that there may be a greater output of fixed elements of capital this year, and a greater output of circulating elements of constant capitals I and II next year‘then I s could not be reconverted into articles of consumption in the first case, unless I brought with it a portion of the surplus-value of II and accumulated it in money instead of consuming it; in the second case there would be no other way out but an expenditure of the money on the part of I itself, an assumption which we have already rejected.
III.XX.261

If II c (1) is greater than II c (2), then the importation of foreign commodities is required for the employment of the money-surplus in I s. If II c (1) is smaller than II c (2), then an exportation of commodities (articles of consumption) is required for the realization of the value of the depreciation of II c in means of production. In either case, foreign trade is necessary.
III.XX.262

Even assuming that, on the basis of simple reproduction on the same scale, the productivity of all lines of industry, and thus the proportional relation of the value of their commodities, would remain unchanged, there would nevertheless be an incentive for production on

an enlarged scale whenever the two last named cases may occur, in which II c (1) is greater or smaller than II c (2).

(3) Results.

III.XX.263

With reference to the reproduction of the fixed capital, the following general remarks may be made:
III.XX.264

If a larger portion of the fixed element of II c expires this year than last and must be reproduced in its natural form‘all other circumstances remaining the same, that is to say, not only the scale of production, but also the productivity of labor, etc.‘then that portion of the fixed capital, which is as yet only declining and must be temporarily accumulated in money until its term of expiration arrives, must decline in the same proportion, since we have assumed that the sum of the fixed capital serving in II (also the sum of its values) remains unchanged. This implies the following consequences: If a greater portion of the commodity-capital of I consists of elements of the fixed capital of II c, then a correspondingly smaller portion consists of circulating elements of II c, because the total production of I for II c remains unchanged. If one of these portions increases, then the other decreases, and vice versa. On the other hand, the total production of

II also retains the same volume. But how is this possible, if the production of its raw materials, half-wrought products, and auxiliary materials (the circulating elements of the constant capital of II) decreases? In the second place, a greater portion of fixed capital of II c, restored to its money-form, flows into department I, in order to be reconverted from its money-form into its natural form. In other words, there is a greater flow of money into department I, aside from the money circulating between I and II merely for the transaction of their business, more money which does not merely serve as a medium for the mutual exchange of their commodities, but acts onesidedly in purchase without a corresponding sale. At the same time the quantity of commodities of II c, the bearers of the value of the depreciation of fixed capital, would have decreased proportionately. This is that quantity of commodities of II which is not exchanged for commodities of I, but must be converted into money of I. More money would have flown from II into I for onesided purchase, and there would be fewer commodities of II which would stand only in the relation of a buyer toward I. Under these circumstances a great portion of I s‘for I v has already been converted into commodities of II‘would not be convertible into commodities of II, but would be held in the form of money.

III.XX.265

The opposite case, in which the reproduction of expired fixed capitals of a certain year exceeds that of the depreciation, need not be discussed in detail after the preceding statements.
III.XX.266

The result would be a crisis‘a crisis in production‘in spite of the fact that reproduction had taken place on the same scale.
III.XX.267

In short, unless a constant proportion between expiring (and about to be renewed) fixed capital and still continuing (merely transferring the value of its depreciation to its product) fixed capital is assumed, so long as reproduction takes place on a simple scale under the same conditions, such as productivity, volume, intensity of labor, the mass of circulating elements to be reproduced in one case would remain the same while the mass of fixed elements to be reproduced would have been increased. Therefore the aggregate production of I would have to increase, or, there would be a deficit in the reproduction, even aside from money matters.
III.XX.268

In the other case, if the proportional magnitude of the fixed capital of II, to be reproduced in its natural form, should decrease and the elements of the fixed capital of II, which must be merely accumulated in money, should increase in the same ratio, then the quantity of the

circulating elements of the constant capital of II, reproduced by I, would remain unchanged, while that of the fixed elements about to be reproduced would have decreased. Hence there would be either a decrease in the aggregate production of I, or a surplus (the same as previously a deficit) which could not be converted into money.
III.XX.269

It is true that the same labor may, in the first case, supply a greater product with an increase in its productivity, extension, or intensity, and so the deficit could be covered in the first case. But such a change could not take place without a transfer of capital and labor from one line of production of department I to another, and every transfer would cause monetary disturbances. Furthermore, to the extent that an expansion and intensification of labor would increase, department I would have to exchange more of its value for less value of II. In other words, there would be a depreciation of the product of I.
III.XX.270

The reverse would take place in the second case, where I must contract its production, which implies a crisis for its laborers and capitalists, or produce a surplus, which implies another crisis. Such a surplus is not an evil in itself, but it is an evil under the capitalist system of production.
III.XX.271

Foreign trade could relieve the pressure in either case. In the first case it would convert products of I held in the form of money into articles of consumption, in the second case it would dispose of the surplus of commodities. But foreign trade, so far as it does not merely reproduce certain elements of production, only transfers these contradictions to a wider sphere and gives them a greater latitude. III.XX.272

Once that the capitalist mode of production is abolished, the problem resolves itself into the simple proposition that the magnitude of the expiring portion of fixed capital, which must be reproduced in its natural form every year (which served in our illustration for the production of articles of consumption), varies in successive years. If it is very large in a certain year (in excess of the average mortality, the same as among men), then it is so much smaller in the next year. The quantity of raw materials, half wrought articles, and auxiliary materials required for the annual production of the articles of consumption‘other circumstances remaining the same‘does not decrease in consequence. Hence the aggregate production of means of production would have to increase in the one case and decrease in the other. This can be remedied only by a continuous relative overproduction. There must be on the one hand a certain quantity of fixed capital in excess of that which is immediately required; on the other hand there must be above all a supply of raw materials, etc., in excess of the actual requirements of annual production (this applies

particularly to articles of consumption). This sort of reproduction may take place when society controls the material requirements of its own reproduction. But in capitalist society it is an element of anarchy.
III.XX.273

This illustration of fixed capital, on the basis of an unchanged scale of reproduction, is convincing. A disproportion of the production of fixed and circulating capital is one of the favorite arguments of political economists in explaining productive crises. That such a disproportion can and must arise even when the fixed capital is merely preserved by renewal is new to them. And yet, it can and must arise even on the assumption of an ideal and normal production on the basis of a simple reproduction of the already existing capital of society.

XII. THE REPRODUCTION OF THE MONEY SUPPLY.

III.XX.274

One element has so far been entirely disregarded, namely the annual reproduction of gold and silver. To the extent that these metals serve as material for articles of luxury, gilding, etc., they do not deserve any special mention, any more than any other products. But they play an important role as money-material, as potential money. For the sake of simplicity, we regard only gold as material for money.
III.XX.275

According to older statements, the entire annual production of gold amounts to about 8-900,000 lbs., equal to about 1100 to 1250 million marks (264 to 392.5 million dollars). But according to Soetbeer*54 it amounts to only 170,675 kilograms, valued at about 476 million marks on an average of the years 1871 to 1875. Of this amount, Australia supplied about 167, the United States 166, Russia 93 million marks. The remainder is distributed over various countries in sums of less than 10 million marks each. The annual production of silver, during the same period, amounted to somewhat less than 2 million kilograms, valued at 354.5 million marks. Of this amount, Mexico supplied about 108, the United States 102, South America about 67, Germany about 26 million, etc.
III.XX.276

Among the countries with predominating capitalist production only the United States are producers of gold and silver. The capitalist countries of Europe obtain almost all their gold and by far the greater part of their silver from Australia, the United States, Mexico, South America, and Russia.
III.XX.277

But we transfer the gold mines into the country with capitalist production whose annual reproduction we are analyzing, for the following reasons:

III.XX.278

Capitalist production does not exist at all without foreign commerce. But when we assume annual reproduction on a given scale, we also assume that foreign commerce replaces home products only by articles of other use-value, or natural form, without affecting the relations of value, such as those of the two categories known as means of production and articles of consumption and their transactions, nor the relations of constant capital, variable capital, and surplus-value, into which the value of the products of each of these categories may be dissolved. The introduction of foreign commerce into the analysis of the annually reproduced value of products can, therefore, produce only confusion, without furnishing any new point in the aspect or solution of the problem. For this reason we leave it aside. And consequently gold as a direct element of annual reproduction is not regarded as a commodity imported from a foreign country.

III.XX.279

The production of gold, like that of metals generally, belongs to department I, which occupies itself with means of production. Let us assume that the annual production of gold amounts to 30 (from reasons of expediency, although it is far too high compared to the other figures of our diagrams). Let this value be resolved into 20 c+5 v+5 s; 20 c is to be exchanged for other elements of department I c,

and this is to be studied later; but the 5 v+5 s are to be exchanged for elements of II c, namely, articles of consumption.
III.XX.280

As for the 5 v, every gold producing business begins by buying labor-power. This is done, not with money produced by this particular business, but with a portion of the money existing in the land. The laborers buy with this 5 v articles of consumption from II, and this department buys with the same money means of production from I. Let us say that II buys from I gold for elements of its commodities (elements of constant capital) to the value of 2, then 2 v flow back to the gold producers of I in money which was formerly in circulation. If II does not buy any more material from I, then I buys from II by throwing its gold into circulation, for gold can buy any commodity. The difference is only that I does not act as a seller, but as a buyer, in that case. The gold producers of I can always get rid of their product, for it is always in a form which may be directly exchanged.
III.XX.281

Take it that some producer of yarn has paid 5 v to his laborers, who create for him in return‘aside from a surplus-product‘yarn to the amount of 5. The laborers buy values worth 5 from II c, and II c buys with the same 5 in money yarn from I, and this 5 in money flows back to the producer of yarn. Now we had assumed that I g (meaning the producer of gold) advanced to his laborers 5 v in

money which had previously belonged to the circulation. The laborers spend it for articles of consumption, but only 2 of the 5 return from II to I g. However, I g can begin his process of reproduction anew, just as well as the producer of yarn. For his laborers have supplied him with 5 in gold, 2 of which he sold, and 3 of which he still has, so that he has but to coin it,*55 or exchange it for bank notes, in order that his entire variable capital may be immediately in his hands, without the intervention of II.
III.XX.282

Even this very first process of annual reproduction has wrought a change in the quantity of money actually or virtually in circulation. We assumed that II c bought 2 v from I g for material, and that I g invested 3 in II as the money-form of its variable capital. In other words, 3 of the amount of money supplied by the new gold production remained within department II and did not return to I. According to our assumption II has satisfied its needs for gold material. The 3 remain in its hands as a hoard of gold. Since they cannot constitute any elements of its constant capital, and since II had previously enough money-capital for the purchase of labor-power; since, furthermore, these additional 3 g, with the exception of the element making good the loss through depreciation, have no function to perform within II c, for a portion of which they were exchanged (they could only serve to cover a shortage in the element making good loss through depreciation, in the case that section 1 of

department II should be smaller than section 2 of department II, which would be accidental); and since, on the other hand, the entire commodity-product of II c, with the exception of the element making up for depreciation, must be exchanged for means of production of I (v+s); therefore this money must be entirely transferred from II c to II s, no matter whether it exists in necessities of life or articles of luxury, and vice versa, a corresponding value of commodities must be transferred from IIs to II c. Result: A portion of the surplus-value is accumulated as a hoard of money.
III.XX.283

In the second year of reproduction, when the same proportion of annually produced gold continues to be used as material, 2 will again flow back to I g, and 3 will be reproduced in its natural form, that is to say, it will be set aside in department II as a hoard, etc.
III.XX.284

With reference to the variable capital in general, it may be said that the capitalist of I g must continually advance money for the purchase of labor-power, the same as every other capitalist. But so far as these wages are concerned, it is not he, but his laborers who buy from II. He can never appear as a buyer, transferring gold to II, without the initiative of II. But to the extent that II buys material from him for the purpose of converting its constant capital II c into a gold supply, a portion of the v of I g flows back to it from II in the same way

that it does to other capitalists of I. And so far as this is not the case, he reproduces his v in gold direct from his product. But to the extent that the v advanced by him in money does not flow back to him from II, a portion of the existing medium of circulation (received from I and not returned to it) is converted by II into a hoard and a portion of its surplus-value is not converted into articles of consumption. Since new gold mines are continually opened or old ones re-opened, a certain proportion of the money invested by I g in v is always money existing previously to the new gold production, and passing from I g by way of its laborers into II, where it becomes an element in the formation of a hoard, or as much of it as is not returned from II to I g.
III.XX.285

But as for (I g)s, department I g can always act as a buyer in this case. It throws its s in the shape of gold into circulation and withdraws from it in return articles of consumption of II c. The gold is there used in part as material, and thus serves as a real element of the constant portions c of productive capital II. And any portion of the gold not so employed becomes once more an element in the formation of a hoard in the role of that part of II s which retains the shape of money. We see, then,‘aside from I c which we reserve for a later analysis‘that even simple reproduction, excluding accumulation strictly so called, namely reproduction, on an enlarged scale, inevitably includes the accumulation, or hoarding, of money.*56 And as this is

annually repeated, it explains the assumption from which we started in the analysis of capitalist production, namely that a supply of money corresponding to the exchange of commodities is in the hands of the capitalists of departments I and II at the beginning of the reproduction. Such an accumulation takes place even after deducting the amount of gold lost by the depreciation of money in circulation.
III.XX.286

It is a matter of course, that the quantity of money accumulated on all sides increases in proportion to the advancing age of capitalist production, and that the quantity annually added to this hoard by the production of new gold decreases proportionately, although the absolute quantity thus added may be considerable. We revert once more in general terms to the objection raised against Tooke and contained in the question: How is it possible that every capitalist draws a surplus-value in money out of the circulation, in other words, draws more money out of the circulation than he throws into it, seeing that the capitalist class must be the ultimate source which throws all money into circulation?
III.XX.287

We reply by summarizing the statements made previously (in chapter XVII):
III.XX.288

(1) The only essential assumption, namely, that there is money enough available for the exchange of the various elements of annual reproduction, is not touched by the fact that a portion of the value of commodities consists of surplus-value. Take it that the entire production belonged to the laborers, so that their surplus-labor were done for themselves, not for the capitalists, then the quantity of circulating commodity-values would be the same and, other circumstances remaining equal, would require the same amount of money for circulation. The question in either case is therefore only: Where does the money come from which serves as a medium of exchange for this quantity of commodity-values? It is not at all: Where does the money come from which monetizes the surplus-value? III.XX.289

It is true, to repeat it once more, that every individual commodity consists of c+v+s, and the circulation of the entire quantity of commodities therefore requires a certain quantity of money for the circulation of the capital c+v, and another for the circulation of s, the revenue of the capitalists. For the individual capitalist as well as for the entire capitalist class, the money in which they advance capital is distinct from the money in which they spend their revenue. Where does this last money come from? Simply from the entire quantity of money available in society, a portion of which circulates as the revenue of the capitalists. We have already seen in previous instances that every capitalist establishing a new business recovers the money

which he spent for his maintenance in the purchase of articles of consumption, by the process of converting his surplus-value into money, once that his business is fairly under way. But generally speaking the difficulty is due to two sources:
III.XX.290

In the first place, if we analyze only the circulation and the turn-over of capital, regarding the capitalist merely as a personification of capital, not as a capitalist consumer and sport, then we see indeed that he is continually throwing surplus-value into circulation as a part of his commodity-capital, but we never see money as a form of revenue in his hands. We never see him throwing money into circulation for the consumption of his surplus-value.
III.XX.291

In the second place, if the capitalist class throw a certain amount of money into circulation in the shape of revenue, it seems as though they were paying an equivalent for this portion of the total annual product, so that this portion is then no longer surplus-value. But the surplus product in which the surplus value is incorporated does not cost the capitalist anything. As a class, they possess and enjoy it gratuitously, and the circulation of money cannot alter this fact. The alteration due to this circulation consists merely in the fact that every capitalist, instead of consuming his surplus-product in its natural form, a thing which is generally impossible, draws commodities of all sorts

up to the amount of his surplus-value out of the general stock of the annual surplus-product of society and appropriates them for his own use. But the mechanism of the circulation has shown that the capitalist class, while throwing money into the circulation for the purpose of spending their revenue, also recover this money from the circulation, so that they can continue the same process over and over; so that, as a class of capitalists, they always remain in possession of the amount of money necessary for the monetization of their surplus-value. Hence, seeing that the capitalist does not only withdraw his surplus-value from the market in the form of commodities for his individual consumption, but also the money which he has paid for these commodities, it is evident that he secures the commodities without paying an equivalent for them. They do not cost him anything, although he pays money for them. If I buy commodities for one pound sterling and recover this money from the seller by means of a surplus product which I got for nothing, it is obvious that I have received the commodities gratis. The continual repetition of this transaction does not alter the fact that I continually secure commodities and continually remain in possession of my pound sterling, although I release it temporarily in the purchase of the commodities. The capitalist continually retains this money as an equivalent of surplus-value that has not cost him anything.
III.XX.292

We have seen that with Adam Smith the entire value of the social product resolves itself into revenue, into v+s, so that the constant capital-value is set down as zero. It follows necessarily that the money required for the circulation of the yearly revenue must also suffice for the circulation of the entire annual product, so that, in our illustration, the money of 3000 required for the circulation of the articles of consumption of the same value must also suffice for the circulation of the entire annual product valued at 9000. This is indeed the opinion of Adam Smith, and it is repeated by Th. Tooke. This erroneous conception of the ratio of the quantity of money required for the realization of the revenue to the quantity of money required for the circulation of the entire social product is a necessary result of misapprehending, thoughtlessly conceiving the manner in which the various elements of material and value of the total annual product are reproduced and annually renewed. It has already been refuted by us.
III.XX.293

Let us listen to Smith and Tooke themselves.
III.XX.294

Smith says in Book II, chapter 2: "The circulation of every country may be divided into two parts: the circulation of the merchants among themselves and the circulation between merchants and consumers. Although the same pieces of money, paper or metal, may be used now in the one, now in the other circulation, both of them

nevertheless take place continually side by side, and each one of them requires therefore a certain quantity of money of this or that kind in order to keep moving. The value of the commodities circulating among the various merchants can never exceed the value of the commodities circulating between merchants and consumers; for whatever the merchants may buy must be sold ultimately to the consumers. As the circulation between the merchants is wholesale, it generally requires a rather large sum for every exchange. The circulation between merchants and consumers, on the other hand, is mostly retail and requires often but very small sums of money: one shilling, or even half penny, suffices sometimes. But small sums circulate much more rapidly than large ones. * * * * Although the annual purchases of all consumers are therefore at least"‘this at least is rich‘"equal in value to those of the merchants, they may nevertheless be effected, as a rule, with a much smaller quantity of money," etc.
III.XX.295

Th. Tooke remarks to this passage of Adam Smith (in "An Inquiry into the Currency Principle," London, 1844, pages 34 to 36): "There cannot be any doubt that the distinction here made is essentially correct. * * * * The exchange between merchants and consumers includes also the payment of wages, which are the principal means of the consumers. * * * * All transactions between merchant and merchant, that is to say, all sales from the producer or importer, through all gradations of intermediate processes of manufacture, etc.,

down to the retail merchant or export merchant, may be dissolved into movements transferring capital. But transfers of capital do not necessarily imply, nor indeed carry actually with them, in the great number of exchanges, a real cession of bank notes or coin‘I mean a substantial, not a fictitious, cession‘at the time of transfer. * * * * The total amount of exchanges between merchants and merchants must in the last instance be determined and limited by the amount of exchanges between merchants and consumers."
III.XX.296

If this last sentence stood by itself, one might think that Tooke stated simply the fact of a ratio between the exchanges of merchants and merchants and those of merchants and consumers, in other words, a ratio between the value of the total annual revenue and the value of the capital with which it is produced. But this is not the case. He explicitly endorses the view of Adam Smith. A special criticism of his theory of circulation is therefore superfluous.
III.XX.297

(2) Every industrial capital, when beginning its career, throws at one single investment enough money into circulation to cover its entire fixed element, which it recovers but gradually in the course of years by the sale of its annual products. Thus it throws at first more money into circulation than it recovers from it. This is repeated at every renewal of its entire capital in a natural form. It is repeated every

year in a certain number of enterprises whose fixed capital must be renewed in its natural form. It is repeated in fragments at every repair, every partial renewal of fixed capital. While more money is on the one hand withdrawn from circulation than is thrown into it, the opposite takes place on the other hand.
III.XX.298

In all lines of industry whose period of production‘as distinguished from the working period‘extends over a long term, money is continually thrown into circulation during this period by the capitalist producers, either in payment for labor-power employed, or in the purchase of means of production to be consumed. Means of production are thus directly withdrawn from the commodity market, and articles of consumption either indirectly by the laborers spending their wages, or directly by the capitalists, who do not by any means stop consuming, although they do not immediately throw any equivalent on the market, in the shape of commodities. During this period, the money thrown by them into circulation serves for the conversion of the value of commodities, including the surplus value embodied in them, into money. This element becomes very important in an advanced stage of capitalist production in the case of lengthy enterprises, such as are undertaken by stock companies, for instance the construction of railways, canals, docks, large municipal buildings, iron ships, drainage of land on a large scale, etc.
III.XX.299

(3) While the other capitalists, aside from the investment of fixed capital, draw more money out of the circulation than they threw into it in the purchase of labor-power and the circulating elements of capital, the gold and silver producing capitalists, on the other hand throw only money into the circulation, aside from the precious metals which serve as raw material, while they withdraw only commodities from it. The constant capital, with the exception of the depreciated portion, furthermore the greater portion of the variable capital and the entire surplus-value, with the exception of the hoard which is eventually accumulated in the hands of these capitalists, is thrown into the circulation as money.
III.XX.300

(4) On one side, various things circulate as commodities which were not produced during the current year, such as real estate, houses, etc., furthermore products whose period of production extends over more than one year, such as cattle, wood, wine, etc. It is important to emphasize in this respect that aside from the quantity of money required for the immediate circulation, there is always a certain quantity in a latent state which may enter into service when so required. Furthermore, the value of such products circulates often in fractions and gradually, for instance, the value of houses in the rents of a number of years.
III.XX.301

On the other hand, not all movements of the process of reproduction are promoted by the circulation of money. The entire process of production, once that its elements have been purchased, is excluded from it. Furthermore all products, which the producer consumed directly in his own individual or productive consumption. Under this head belongs also the board of agricultural laborers.
III.XX.302

The quantity of money, then, which circulates the annual product, exists in society, having been gradually accumulated. It does not belong to the values produced during the current year, with the exception of the gold used for making good the loss of depreciated money.
III.XX.303

This presentation of the matter assumes the exclusive circulation of precious metals as money, and the simplest form of cash purchases and sales, although even plain metals, as a basis of circulation, may serve as money, and have actually so served in history and have been the fundament for the development of a credit system and of certain portions of its mechanism.
III.XX.304

This assumption is not made from mere considerations of method, although these are important enough, as demonstrated by the fact that Tooke and his school as well as his adversaries were continually compelled in their controversies concerning the circulation of bank notes to revert to the hypothesis of a purely metallic circulation. They were compelled to do so subsequently, and did so very superficially, because they thus reduced to an incidental point what should have been the point of departure of their analysis.
III.XX.305

But the simplest study of the circulation of money in its primitive form, which is the immanent factor of the process of annual reproduction, demonstrates:
III.XX.306

(a) Assuming capitalist production to be developed to the point where the wage system predominates, money-capital evidently plays a prominent role, seeing that it is the form in which the variable capital is advanced. To the extent that the wage system develops, all products are converted into commodities and must, therefore, pass through the stage of money as one phase of their metamorphoses, with a few important exceptions. The quantity of circulating money must suffice for this conversion of commodities into money, and the greater part of this quantity is furnished in the form of wages, in that money, which is the money-form of the variable capital advanced by

the industrial capitalists in payment for labor-power, and which serves in the hands of the laborers overwhelmingly as a medium of circulation (of purchase). It is quite the reverse under a system of natural economy such as was predominant under every form of vassalage (including serfdom), and still more in more or less primitive communities, whether they are infected by conditions of vassalage or slavery, or not.
III.XX.307

In a slave system, the money-capital invested in the purchase of slaves plays the role of the fixed capital in money-form, which is but gradually replaced after the expiration of the active life period of the slaves. Among the Athenians, therefore, the gain realized by a slave owner through the industrial employment of his slaves, or indirectly by hiring them out to other industrial employers (for instance mine owners), was regarded merely as an interest (with sinking fund) on the advanced money-capital, just as the industrial capitalist under capitalist production places a portion of the surplus-value plus the depreciation of his fixed capital to the account of interest and renewal of his fixed capital. This is also the rule in the case of capitalists offering fixed capital, such as houses, machinery, etc., for rent. Mere household slaves, who perform the necessary services or are kept as luxuries are not considered here. They correspond to the modern servant class. But the slave system‘so long as it is the dominant form of productive labor in agriculture, manufacture, navigation, etc., as it

was in the advanced states of Greece and Rome‘preserves an element of natural economy. The slave market maintains its supply of labor-power by war, piracy, etc., and this rape is not promoted by a process of circulation, but by the natural appropriation of the labor-power of others by physical force. Even in the United States, after the conversion of the neutral territory between the wage labor states of the North and the slave labor states of the South into a slave breeding region for the South, where the slave thus raised for the market had become an element of annual reproduction, this method did not suffice for a long time, so that the African slave trade was continued as long as possible for the purpose of supplying the market. III.XX.308

(b) The natural flux and reflux of money by the exchange of the annual products on the basis of capitalist production; the advances of fixed capital in one bulk to the full value and the gradual and prolonged recovery of this outlay from the circulation in the course of successive years, in other words, the gradual reconstitution of fixed capital in money by the annual formation of a hoard, which is different from the simultaneous accumulation of a hoard based on the annual production of new gold; the different length of time in which money is advanced according to the duration of the periods of reproduction of commodities, and in which money must, therefore, be accumulated anew, before it can be recovered from the circulation by the sale of commodities; the different length of time for which money

must be advanced, resulting even from the different distances of the places of production from their selling market; furthermore the differences in the magnitude and period of the reflux according to the relative size or condition of the productive supplies in the various lines of business and in the individual businesses of the same line, and with them the terms at which the elements of constant capital are bought‘all this taking place during the year of reproduction, it was necessary that all these different factors should be noted and brought home by experience in order to give rise to a systematization of the mechanical aids of the credit-system and to an actual discovery of whatever capital was available for lending.
III.XX.309

This is further complicated by a difference between lines of business whose production proceeds continuously under normal conditions on the same scale, and those which are carried on at different scales at different periods of the year, such as agriculture.

XIII. DESTUTT DE TRACY'S THEORY OF REPRODUCTION.

III.XX.310

As an illustration of the confused and at the same time boastful thoughtlessness of political economists analyzing social reproduction, the great logician Destutt de Tracy may serve (compare volume I,

page 181, footnote 1), whom even Ricardo took seriously, calling him a very distinguished writer.
III.XX.311

This distinguished writer makes the following revelations concerning the entire process of social reproduction and circulation:

"One may ask me how these industrial capitalists can make such large profits and out of whom they can draw them. I reply that they do so by selling everything which they produce for more than it has cost to produce; and that they sell

(1) to one another to the extent of the entire share of their consumption, intended for the satisfaction of their needs, which they pay with a portion of their profits;

(2) to the wage workers, both those whom they pay and those whom the idle capitalists pay; from these wage workers they recover the entire wages in this way, except what little they may save;

(3) to the idle capitalist, whom they pay with a portion of their revenue which they have not spent for the wages of the laborers employed by them directly; so that the entire rent, which they pay them annually, flows back to them in this way." (Destutt de Tracy, Traité de la volonté et de ses effets. Paris, 1821. Page 239.)

III.XX.312

In other words, the capitalists enrich themselves by mutually getting the best of one another in the exchange of that portion of their surplus-value which they reserve for their individual consumption, or consume as revenue. For instance, if this portion of their surplus-value, or of their profits, is 400 p. st., this sum is supposed to be increased to, say, 500 p. st. by mutually selling their respective shares at an excess of 25% over the normal. But if all do the same, the result will be just what it would have been if they had mutually sold their shares at their normal values. They merely need in that case 500 p. st. in money for the circulation of commodities valued at 400 p. st., and this would seem to be rather a method of impoverishing than of enriching themselves, since it means that they are compelled to reserve a large portion of their total wealth unproductively in the state of a medium of circulation. The outcome is simply that the capitalist class can divide only 400 p. st.'s worth of commodities among themselves for their individual consumption, after nominally raising prices all around, but that they do one another the favor of circulating 400 p. st.'s worth of commodities by means of a quantity of money which would just as well circulate 500 p. st.'s worth of commodities.
III.XX.313

And this is saying nothing about the fact that the assumption deals here only with a "portion of their profits," or any supply of

commodities representing profits. But Destutt undertook precisely to tell us where these profits come from. The quantity of money required to circulate it represents a very subordinate question. It seems that the quantity of commodities, in which the profit is incorporated, is produced by the circumstance that the capitalists do not only sell these commodities to one another (an assumption which is quite fine and profound), but also mutually sell them too dearly. Thus we are acquainted with the secret of the wealth of the capitalists. It is on a par with the secret of Reuter's funny "Inspector Braesig" who discovered that the great poverty is due to the great "pauvreté."
III.XX.314

(2) The same capitalists, furthermore, sell "to the wage workers, both those whom they pay and those whom the idle capitalists pay; from these wage workers they recover the entire wages in this way, except what little they may save."
III.XX.315

According to Destutt, then, the reflux of the money-capital advanced to the laborers as wages, is the second source of the wealth of the capitalists.
III.XX.316

For instance, if the capitalists have paid 100 p. st. to their laborers as wages, and if these same laborers buy from the same capitalists

commodities of this same value of 100 p. st., so that what the capitalists have advanced to the laborers as wages returns to the capitalists when the laborers spend it for commodities, then the capitalists get richer. A common mortal would think that the capitalists recover only their 100 p. st., which they possessed before this transaction. At the beginning of the transaction they have 100 p. st. They buy labor-power valued at 100 p. st. This labor-power, so bought, produces commodities of a certain value, which, so far as we know, amounts to 100 p. st. By selling these commodities for 100 p. st. to their laborers, the capitalists recover 100 p. st. in money. The capitalists then have once more 100 p. st., the same as before, and the laborers have 100 p. st.'s worth of commodities which they have themselves produced. It is hard to understand how that can make the capitalists any richer. If they did not recover the 100 p. st., then they would have to pay first 100 p. st. to the laborers in wages and then to give them their product for nothing, although it is also worth 100 p. st. The reflux of this money might therefore at best explain, why the capitalists do not get any poorer by this transaction, but not, why they get richer by it.
III.XX.317

It is another question, how the capitalists got possession of the 100 p. st., and why the laborers, instead of working for their own account, are compelled to exchange their labor-power for this money. But this is a fact which is self-explanatory for a thinker of Destutt's caliber.

III.XX.318

However, Destutt himself is not quite satisfied with his solution. He did not simply tell us that the capitalists get richer by spending a sum of 100 p. st. in money and then recovering the same amount. He had not plainly spoken of a reflux of 100 p. st. which merely explains why this money is not lost. He had told us that the capitalists get richer "by selling everything which they produce for more than it has cost to produce."

III.XX.319

Consequently the capitalists must also get richer by their transaction with the laborers by selling too dearly to them. Very well! "They pay wages * * * * and all this flows back to them by the expenditures of all these people who pay them more" (for the products) "than they cost the capitalists in wages." (Page 240.) In other words, the capitalists pay 100 p. st. in wages to the laborers, and then they sell to these laborers their own product at 120 p. st., so that they not only recover their 100 p. st., but also gain 20 p. st. That is impossible. The laborers can pay for the commodities only with the money which they receive in the form of wages. If they get only 100 p. st. in wages, they can buy only 100 p. st.'s worth, not 120 p. st.'s worth. This is therefore impracticable. But there is still another way. The laborers buy from the capitalists commodities for 100 p. st., but receive only 80 p. st.'s worth. They are cheated out of 20 p. st. Then

the capitalists have certainly gained 20 p. st., because he practically pays 20% less than the actual value for labor-power. This is equivalent to cutting wages 20% by a circuitous route.
III.XX.320

The capitalists would accomplish the same end if they paid the laborers in the first place only 80 p. st. in wages and gave them only 80 p. st.'s worth of commodities in exchange. This seems to be the normal way for the class of capitalists as a whole, for according to Destutt the laboring class must "receive sufficient wages" (page 219), since their wages must be at least sufficient to maintain them alive and working, "to gain the barest subsistence" (page 180). If the laborers do not receive such sufficient wages, then that means according to the same Destutt "the death of industry" (page 208), which does not seem to be a way by which the capitalists can get richer. But whatever may be the scale of wages, paid by the capitalists to the laborers, they have a certain value, for instance, 80 p. st. If the capitalist class pays the laborers 80 p. st., then it has to supply them with commodities worth 80 p. st. in exchange for these wages, and the reflux of this sum does not make the capitalists any richer. If the capitalists pay the laborers 100 p. st. in wages, and supply them in exchange for 100 p. st. only with 80 p. st.'s worth of commodities, then they pay 20% above the normal scale in wages and supply on the other hand 20% less in commodities.
III.XX.321

In other words, the fund from which the capitalist class would derive its profits, would be made up of deductions from the normal scale of wages of the laborers, by paying less than its value for labor-power, in other words, less than the value of the necessities of life required for the normal reproduction of the laborer. If the normal scale of wages were paid, which is supposed to be the case according to Destutt, there can be no fund for profits, neither for the industrial nor for the idle capitalists.
III.XX.322

Hence Destutt should have reduced the entire secret of how the capitalist class get richer, to these words: A deduction from the wages of the laborers. In that case the other sources of surplus-value, which he mentions under (1) and (3), would not exist.
III.XX.323

Under these conditions all the countries, in which the money paid to the laborers in wages is reduced to the value of the articles of consumption required for the subsistence of the working class, would not have any fund for the consumption of capitalists, nor any fund for the accumulation of capital. In other words, there would be no fund permitting a capitalist class to live, and therefore no capitalist class. And according to Destutt this would be the case in all wealthy and developed countries with an old civilization, for in them, "in our

deeprooted old societies, the fund from which wages are paid * * * * is an almost constant magnitude" (page 202).
III.XX.324

Even with a deduction from the wages, the capitalist does not enrich himself by first paying the laborer 100 p. st. in wages and then supplying him with 80 p. st.'s worth of commodities for 100 p. st. of wages, in other words, by circulating 80 p. st.'s worth of commodities by means of 100 p. st., an excess of 20%. The capitalist gets richer by appropriating, aside from the surplus-value‘that portion of the product in which surplus-value is incorporated‘20% of that portion of the product which the laborer should receive in exchange for his wages: The capitalist class would not gain anything by the silly method which Destutt assumes. They pay 100 p. st. for wages and give to the laborer for these 100 p. st. a part of his own product valued at 80 p. st. But in the next transaction they must again advance 100 p. st. for the same purpose. They would thus indulge in the useless sport of advancing 100 p. st. in money and giving in exchange therefor 80 p. st. in commodities, instead of paying 80 p. st. and exchanging it for 80 p. st. in commodities. That is to say, they would be continually advancing a money-capital which is 20% in excess of the normal required for the circulation of their variable capital. That is a very peculiar method to get rich.
III.XX.325

(3) The capitalist class, finally, sells "to the idle capitalists, whom they pay with a portion of their revenue which they have not spent for the wages of the laborers employed by them directly; so that the entire rent, which they pay them annually, flows back to them in this way." III.XX.326

We have seen a while ago that the industrial capitalists pay with a portion of their profits "the entire share of their consumption, intended for the satisfaction of their needs." Take it, then, that their profits amount to 200 p. st. And let them consume 100 p. st. of this in their individual consumption. But the other half, or 100 p. st., does not belong to them. It belongs to the "idle" capitalists, that is to say, to those who take ground rent and lend money on interest. In other words, they have to pay 100 p. st. to this gentry. Let us assume that this gentry use 80 p. st. for their individual consumption, and 20 p. st. for the purchase of servants, etc. They buy with those 80 p. st. articles of consumption from the industrial capitalists. These capitalists, then give up commodities valued at 80 p. st. and receive in return 80 p. st. in money, or four fifths of the 100 p. st. paid by them to the idle capitalists under the name of rent, interest, etc. The servant class, who are the wage workers directly in attendance upon the idle capitalists, have received 20 p. st. from their masters. These servants likewise buy articles of consumption from the industrial capitalists to the amount of 20 p. st. In this way these capitalists recover also the last 20 p. st., or the last fifth, of the 100 p. st., which they have

paid to the idle capitalists for rent, interest, etc., while they give up in return commodities valued at 20 p. st.
III.XX.327

At the close of this transaction the industrial capitalists have recovered the full 100 p. st., which they paid to the idle capitalists for rent, interest, etc., in money. But one half of their surplus products, valued at 100 p. st., have passed from their hands into the fund for the individual consumption of the idle capitalists.
III.XX.328

It is evidently immaterial for the present question, whether the division of the 100 p. st. among the idle capitalists and their dependent wage workers is drawn into this discussion or not. The matter is simple: Their rent, interest, in short, their share in the surplus-value of 200 p. st., is paid to them by the industrial capitalists in money to the amount of 100 p. st. With these 100 p. st. they buy directly or indirectly articles of consumption from the industrial capitalists. They return the 100 p. st. in money to them and take from them instead articles of consumption valued at 100 p. st.
III.XX.329

This completes the reflux of the 100 p. st. paid by the industrial capitalists to the idle capitalists. Is this transaction a means of making the industrial capitalists any richer, as Destutt imagines? Before this

transaction they had values amounting to 200 p. st., 100 being money and 100 articles of consumption. After the transaction they have only one half of the original amount of values. They have once more 100 p. st. in money, but they have lost the articles of consumption valued at 100 p. st., which have passed into the possession of the idle capitalists. In other words, they have become poorer to the extent of 100 p. st., instead of being richer. If, instead of first choosing the circuitous route of paying out 100 p. st. in money, and then receiving this money back in payment for articles of consumption valued at 100 p. st., they had paid rent, interest, etc., directly in the natural form of commodities, then they would not recover any 100 p. st. in money, because they did not throw that amount of money into the circulation. In the case of a payment in commodities, the transaction would simply have been confined to keeping one-half of the surplus product of 200 p. st. for themselves and giving the other half to the idle capitalists without receiving any equivalent in return. Even Destutt would not have been able to consider this a means of getting richer. III.XX.330

Of course, the land and capital borrowed by the industrial capitalists from the idle capitalists and paid for by a portion of their surplus-value in the form of ground rent and interest, etc., are profitable for them, for they constitute one of the conditions for the production of any commodity, and more especially of that portion of the product, which creates surplus-value, or in which surplus-value is incorporated.

This profit flows from the use of the borrowed land and capital, not out of the price paid for them. This price rather constitutes a deduction from the profit. Or one would have to contend, that the industrial capitalists do not get richer, but poorer, if they are enabled to keep the other half of their surplus-value, instead of being compelled to give it up. This is the confusion which results from the indiscriminate mixing up of such phenomena of circulation as a reflux of money with the distribution of the product, which is merely promoted by this circulation.
III.XX.331

And yet the same Destutt is so sharp as to remark: "Whence come the revenues of these idle people? Do they not come out of the rent paid by them out of the profits of those who put the capitals of the former to work, that is to say, who pay with the funds of the former a certain kind of labor which produces more than it costs, in other words, the profits of the industrial capitalists? It is always necessary to revert to them, in order to find the source of wealth. It is they who in reality feed the wage workers employed by the idle capitalists." (Page 246).
III.XX.332

In other words, in this quotation the rent, etc., of the idle capitalists is a deduction from the profit of the industrial capitalists. In former quotations it was a means of enriching them.

But at least one consolation is left for our friend Destutt. These good industrials treat the idle capitalists in the same way that they have treated one another and their laborers. They sell them all commodities too dearly, for instance, at a raise of 20%. Now there are two possibilities. The idle capitalists either have other funds of money aside from the 100 p. st. which they receive from the industrials, or they have not. In the first case, the industrials sell them commodities valued at 100 p. st. at a price of, say, 120 p. st. In other words, they recover by the sale of their commodities not only the 100 p. st. paid to the idle capitalists, but also 20 p. st. of new values. Now, how stands the account? They have given away 100 p. st. in commodities for nothing, for the 100 p. st. that paid for their commodities were their own money. Their own commodities have been paid with their own money. In other words, they have lost 100 p. st. But they have also received an additional sum of 20 p. st. in the price of their commodities. In other words, 20 p. st. of gain. Balance this against the loss of 100 p. st., and you still have a loss of 80 p. st. Never a plus, always a minus. The advantage taken by the industrials over the idle capitalists has reduced the loss of the industrials, but for all that it has not transformed a reduction of their wealth into an increase of wealth. But this method cannot go on indefinitely, for the idle capitalists cannot pay year after year 120 p. st., if they receive only 100 p. st.

III.XX.334

There remains the other possibility. The industrials sell commodities valued at 80 p. st. in exchange for the 100 p. st. paid to the idle capitalists. In this case, they still give away 80 p. st. for nothing, in the form of rent, interest, etc. By means of cheating the industrials have reduced their tribute to the idlers, but it nevertheless is exacted from them the same as ever, and the idlers are enabled, on the same theory, assuming the prices to depend on the free will of the sellers, to demand in the future 120 p. st. instead of 100 p. st. as rent and interest on their land and capital.

III.XX.335

This brilliant analysis is quite worthy of that depth of thought which copies on the one hand from Adam Smith that "labor is the source of all wealth" (page 242), that the industrial capitalists "employ their capital for the payment of labor that reproduces it with a profit" (page 246), and which concludes on the other hand that these industrial capitalists "maintain all the other people, are the only ones who increase the public wealth, and create all the means for our enjoyment" (page 242), that it is not the capitalists who are maintained by the laborers, but the laborers who are maintained by the capitalists, for the brilliant reason that the money, with which the laborers are paid, does not remain in their hands, but continually returns to the capitalists in payment of the commodities produced by

the laborers. "They receive only with one hand, and return with the other. Their consumption must therefore be regarded as being due to those who pay their wages." (Page 235).
III.XX.336

After this exhaustive analysis of social reproduction and consumption, as promoted by the circulation of money, Destutt continues: "This is what perfects this perpetuum mobile of wealth, this movement which,- though ill understood" (I should say so!) "yet has justly been named circulation. For it is indeed a circulation and always returns to its point of departure. This is the point where production is accomplished." (Pages 139, 140.)
III.XX.337

Destutt, that very distinguished writer, membre de l'Institut de France et de la Sociéte Philosophique de Philadelphie, and indeed to a certain extent a beacon light among the vulgar economists, finally requests his readers to admire the wonderful lucidity with which he has presented to them the course of the social process, the flood of light which he has poured over the matter, and he is condescending enough to communicate to his readers, where all this light comes from. This must be read in the original in order to be appreciated.
III.XX.338

"On remarquera, j'espere, combien cette maniere de considérer la consommation de nos richesses est corcordante avec tout ce que nous avons dit a propos de leur production et de leur distribution, et en meme temps quelle clarté elle répand sur toute la marche de la société. D'ou viennent cet accord et cette lucidité? De ce que nous avons rencontré la vérité. Cela rappelle I' effet de ces miroirs ou les objets se peignent nettement et dans leurs justes proportions, quand on est placé dans leur vrai point-de-vue, et ou tout parait confus et desuni, quand on est trop près ou trop loin." (Pages 242, 243). (It will be noted, I hope, how much this manner of viewing the consummation of our wealth is in accord with all we have said concerning its production and distribution, and also how much light it throws on the entire course of society. Whence come this accord and this lucidity? It is due to the fact that we have met truth face to face. This recalls the effect of those mirrors, in which the objects are reflected clearly and in their true proportions, when we are placed in their correct focus, but in which everything appears confused and distorted, when we are too close or too far away from them). III.XX.339

There you have the bourgeois idiocy in all its beatitude!

Notes for this chapter

43.

From manuscript II.

44.

From manuscript VIII.

45.

Mainly taken from manuscript II; the diagrams from manuscript VIII.

46.

Here manuscript VIII is resumed.

47.

Advocates of the theory of crises of Rodbertus are requested to make a note of this.

48.

This presentation differs somewhat from that given in another place of this section farther along. There I throws likewise an additional amount of 500 p. st. into circulation. Here II alone supplies the additional money for the circulation. But this does not alter the final result.‘F. E.

49.

Manuscript II resumed here.

50.

The following is from manuscript VIII.

51.

"When a savage manufactures bows, he carries on an industry, but he does not practice any abstinence." (Senior, Principes foundamentaux de l'Economie Politique, traduction Arrivabene, Paris, 1836, page 308.) "The more society advances, the more abstinence it requires."

(Ibidem, page 342.) Compare "Capital," volume I, chapter XXIV, 3, page 608.

52.

E. B. Tyler, Forschungen ueber die Urgeschichre der Menschheit, translated by H. Mueller. Leipsic, no date, page 240.

53.

These figures do not coincide with those previously assumed. But this does not alter the substance of the argument, since it is merely a question of proportions.‘F. E.

54.

Ad. Soetbeer, Edelmetall-produktion. Gotha, 1875.

55.

"A considerable quantity of gold bullion...is taken by the gold diggers directly to the Mint in San Francisco."‘Reports of H. M. Secretaries of Embassy and Legation. 1879. Part III, p. 337.

56.

The analysis of the exchange of newly produced gold within the constant capital of department I is not contained in the manuscript.‘F. E.

Volume II CHAPTER XXI. ACCUMULATION AND REPRODUCTION ON AN ENLARGED SCALE.

III.XXI.1

It has been shown in Volume I, how accumulation works in the case of the individual capitalist. By the conversion of the commodity-capital into money, the surplus-product, in which the surplus-value is incorporated, is also monetized. The capitalist reconverts the surplus-value thus monetized into additional natural elements of his productive capital. In the next cycle of production the increased capital furnishes an increased product. But what happens in the case of the individual capital, must also show in the annual reproduction of society as a whole, just as we have seen it done in the case of reproduction on a simple scale, where the successive precipitation of the depreciated elements of fixed capitals in the form of money, accumulated as a hoard, also makes itself felt in the annual reproduction of society. III.XXI.2

If a certain individual capital amounts to 400 c + 100 v, with an annual surplus-value of 100 s, then the product in commodities amounts to 400 c + 100 v + 100 s. This amount of 600 is converted into money. Of this money, again, 400 c are converted into the natural form of constant capital, 100 v into labor-power, and‘provided that the entire surplus-value is accumulated‘100 s are converted into additional constant capital by their transformation into natural elements of productive capital. The following assumptions go with this case: (1) That this amount is sufficient under the given technical conditions either to expand the existing constant capital, or to establish a new industrial business. But it may also happen that surplus-value must be

converted into money and this money hoarded for a much longer time, before these steps may be taken, before actual accumulation, or expansion of production, can take place. (2) It is furthermore assumed that production on an enlarged scale has actually been in process previously. For in order that the money (the surplus-value hoarded as money) may be converted into elements of productive capital, these elements must be available on the market as commodities. It makes no difference whether they are bought as finished products, or made to order. They are not paid for until they are finished, and at any rate, until actual reproduction on an enlarged scale, an expansion of hitherto normal production, has taken place so far as they are concerned. They had to be present potentially, that is to say, in their elements, for it required only an impulse in the form of an order, that is to say, a purchase preceding their actual existence and anticipating their sale, in order to stimulate their production. The money on one side in that case calls forth expanded reproduction on the other, because the possibility for it exists without the money. For money in itself is not an element of actual reproduction.
III.XXI.3

For instance, capitalist A, who sells during one year, or during a number of successive years, certain quantities of commodities produced by him, thereby converts that portion of the commodities, which bears surplus-value, the surplus-product, or, in other words, the surplus-value produced by himself, successively into money,

accumulates it gradually, and thus makes for himself a new potential money-capital. It is potential money-capital on account of its capacity and destination of being converted into the elements of productive capital. But practically he merely accumulates a simple hoard; which is not an element of actual production. His activity for the time being consists only in withdrawing circulating money out of circulation. Of course, it is not impossible that the circulating money thus laid away by him was itself, before it entered into circulation, a portion of some other hoard. This hoard of A, which is potentially a new money-capital, is not an addition to the social wealth, any more than it would be if it were spent in articles of consumption. But money, when withdrawn from circulation, having previously circulated, may have been held somewhere as a hoard, or may have been the money-form of wages, may have monetized means of production or other commodities, may have circulated portions of constant capital or of the revenue of some capitalist. It is no more new wealth than money, considered from the standpoint of the simple circulation of commodities, is the bearer, not only of its simple value, but also of its tenfold value, because it may have been turned over ten times a day and realized ten different values of commodities. The commodities exist without it, and it remains what it is (or becomes even less by depreciation) whether in one turn-over or in ten. Only in the production of gold‘to the extent that the output of gold contains a surplus-product and is the bearer of surplus-value‘is new value created (potential money), and the new output of gold increases the money-

material of potential new money-capitals only to the extent that it enters entirely into the circulation.
III.XXI.4

Although the surplus-value hoarded in the form of money is not an addition to the social wealth, it represents an addition to the potential money-capital, on account of the function for which it is hoarded. (We shall see later that new money-capital may arise in still another way than by the gradual monetization of surplus-value.)
III.XXI.5

Money is withdrawn from circulation and accumulated as a hoard by the sale of commodities without a subsequent purchase. If this operation is conceived as one taking place universally, then it seems inexplicable where the buyers are to come from, since in that case everybody would want to sell in order to hoard, and none would want to buy. And it must be so conceived, since every individual capital may be in process of accumulation.
III.XXI.6

If we were to conceive of the process of circulation as one taking place in a straight line between the various divisions of annual reproduction‘which would be incorrect, as it consists with a few exceptions of mutually retroactive movements‘then we should have to start out from the producer of gold (or silver) who buys without

selling, and to assume that all others sell to them. In that case the entire social surplus-product of the current year would pass into his hands, representing the entire surplus-value of the year, and all the other capitalists would distribute among themselves their relative shares in his surplus-product, which consists naturally of money, gold being the natural form of his surplus-value. For that portion of the product of the gold producer, which has to make good his active capital, is already tied up and disposed of. The surplus-value of the gold producer, in the form of gold, would then be the only fund from which all other capitalists would have to derive the material for the conversion of their annual surplus-product into gold. The magnitude of its value would then have to be equal to the entire annual surplus-value of society, which must first assume the guise of a hoard. Absurd as this assumption would be, it would accomplish nothing more than to explain the possibility of a universal formation of a hoard at the same period. It would not further reproduction itself, except on the part of the gold producer, one single step.
III.XXI.7

Before we solve this seeming difficulty, we must distinguish between the accumulation in department I (production of means of production) and in department II (production of articles of consumption). We start out from I.

I. ACCUMULATION IN DEPARTMENT I.

(1). The Formation of a Hoard.

III.XXI.8

It is evident that both the investments of capital in the numerous lines of industry constituting department I, and the different individual investments of capital within each of these lines of industry, according to their age, that is to say, the space of time during which they have served, quite aside from their volume, technical conditions, market conditions, etc., must be in different stages of the process of successive transformation from surplus-value into potential money-capital. It is immaterial whether this money-capital is to serve for the expansion of the active capital, or for the establishment of new industrial enterprises, which constitute the two forms of expansion of production. One portion of the capitalists, then, is continually converting its potential capital, when grown to a sufficient size, into productive capital, that is to say, they buy with the money hoarded by the monetization of surplus-value means of production, additional elements of constant capital. Another portion of the capitalists is meanwhile still engaged in accumulating potential money-capital. Capitalists belonging to these two categories meet as buyers and sellers, each one of them exclusively in one of these roles.
III.XXI.9

For instance, let A sell 600, representing 400 c + 100 v + 100 s, to B, who may represent more than one buyer. A sells 600 in commodities for 600 in money, of which 100 are surplus-value which he withdraws from circulation and hoards in the form of money. But these 100 in money are but the money-form of the surplus-product in which a value of 100 was incorporated. The formation of a hoard, then, is not a production, nor is it an increment of production. The action of the capitalist consists merely in withdrawing from circulation 100 obtained by the sale of his surplus-product, in holding and hoarding this amount. This operation is carried on, not alone on the part of A, but at numerous points of the periphery of circulation by other capitalists, named A', A'', A''', all of whom work busily at this sort of accumulation. These numerous points at which money is withdrawn from circulation and accumulated in numerous individual hoards appear as so many obstacles of circulation, because they stop the movement of money and deprive it of its capacity to circulate for a certain length of time. But it must be remembered that hoarding takes place in the simple circulation of commodities long before it is based on the capitalist mode of production. The quantity of money existing in society is always greater than the amount in actual circulation, although this varies according to circumstances. We meet the same hoards, and the same accumulation of hoards, at this stage, but now it is a factor immanent in the capitalist process of production.

III.XXI.10

One can understand the pleasure felt by some men when all these potential capitals, by their concentration in the hands of bankers, etc., by means of the credit system, become disposable, "loanable capital," money-capital, which is no longer merely passive and a dream of the future, but active usury-capital, self-expanding capital.
III.XXI.11

However, A accomplishes the formation of a hoard only to the extent that he acts as a seller, so far as his surplus-product is concerned, not as a buyer. His successive production of surplus-products, the bearers of his surplus-value convertible into money, is therefore a promise for the formation of his hoard. In the present case, where we are dealing only with the circulation within department I, the natural form of the surplus-product, and of the total product of which it is a part, is that of an element of constant capital of I, that is to say, it belongs to the category of a means of production creating means of production. We shall see presently what becomes of it, what function it performs, in the hands of the buyers such as B, B', B'', etc.
III.XXI.12

It must be particularly noted at this point that A, while withdrawing money from circulation and hoarding it, on the other hand throws commodities into it without withdrawing other commodities in return. The capitalists B, B', B'', etc., are thereby enabled to throw only

money into it and withdraw only commodities from it. In the present case, these commodities, according to their natural form and destination, become a fixed or circulating element of the constant capital of B, B', etc. We shall hear more about this anon, when we shall deal with the buyer of the surplus-product, with B, B', etc.

III.XXI.13

We remark by the way: Once more we find here, as we did in the case of simple reproduction, that the disposal of the various elements of annual reproduction, that is to say, their circulation which must comprise the reproduction of the capital to the point of replacing its various elements, such as constant, variable, fixed, circulating, money and commodity-capital, is not conditioned on the mere purchase of commodities followed by a corresponding sale, or a mere sale followed by a corresponding purchase, so that there would actually be a bare exchange of commodity for commodity, as the political economists assume, especially the free trade school from the time of the physiocrats and Adam Smith. We know that the fixed capital, once that its investment is made, is not replaced during the entire period of its function, but serves in its old form, until its value is gradually precipitated in the form of money. Now we have seen that the periodical renewal of the fixed capital of IIc [the entire value of the capital of IIc being converted into elements of I valued at (v + s)] pre-supposes on the one hand the mere purchase of the fixed portion

of IIc, which is reconverted from the form of money into its natural form, and to which corresponds the mere sale of Is; and presupposes on the other hand the mere sale on the part of IIc, the sale of its fixed (depreciating) value, which is precipitated in money and to which corresponds the mere purchase of I s. In order that the transaction may take place normally in this case, it must be assumed that the mere purchase on the part of II c is equal in value to the mere sale on the part of II c, and that in the same way the mere sale of I s to IIc, section 1, is equal in value to the mere purchase from department IIc, section 2. Otherwise simple reproduction is interrupted. The mere sale on one side must be offset by a mere purchase on the other. It must likewise be assumed that the mere sale of that portion of I s, which forms the hoards of A, A', A'' is balanced by the mere purchase of that portion of I s, which converts the hoards of B, B', B'', into elements of additional productive capital.
III.XXI.14

So far as the balance is restored by the fact that the buyer acts later on as a seller to the same amount, and vice versa, the money returns to the side that has advanced it in the first place, which sold first before it bought again. But the actual balance, so far as the exchange of commodities itself is concerned, that it to say, the disposal of the various portions of the annual product, is conditioned on the equal value of the commodities exchanged for one another.
III.XXI.15

But to the extent that only one-sided exchanges are made, a number of mere purchases on one hand, a number of mere sales on the other‘and we have seen that the normal disposal of the annual product on the basis of capitalist production requires such onesided metamorphoses‘the balance can be maintained only on the assumption that the value of the onesided purchases and onesided sales is the same. The fact that the production of commodities is the general form of capitalist production implies the role which money is playing not only as a medium of circulation, but also as money-capital, and creates conditions peculiar for the normal transaction of exchange under this mode of production, and therefore peculiar for the normal course of reproduction, whether it be on a simple, or on an expanded scale. These conditions become so many causes of abnormal movements, implying the possibility of crises, since a balance is an accident under the crude conditions of this production.
III.XXI.16

We have also seen that there is indeed, in the exchange of I v for a corresponding value of II c, an ultimate renewal of the value of the commodities of II by an equivalent value of commodities of I, so that the sale of the commodities of the aggregate capitalist of II is balanced subsequently by the purchase of commodities from I to the same amount. This restitution takes place. But it is not an exchange which takes place between the capitalists of I and II in the disposal

of their relative commodities. II c sells its commodities to the working class of I. This class meets it one-sidedly in the role of a buyer of commodities, and it meets that class onesidedly as a seller of commodities. With the money so obtained II c meets the aggregate capitalist of I onesidedly as a buyer of commodities, and the aggregate capitalist of I meets it onesidedly as a seller of commodities to the extent of I v. It is only by means of this sale of commodities that department I finally reproduces its variable capital in the form of money-capital. Just as one-sidedly as the capitalist class of I faces that of II in the role of a seller of commodities to the extent of I v, so does that class face its working class in the role of a buyer of commodities, a buyer of labor-power. And just as one-sidedly as that working class faces the capitalists of II in the role of a buyer of commodities (namely of articles of consumption), so it faces the capitalists of I as a seller of commodities, namely, a seller of its labor-power.
III.XXI.17

The continual offer of labor-power on the part of the working class of I, the reconversion of a portion of the commodity-capital of I into the money-form of variable capital, the renewal of a portion of the commodity-capital of II by natural elements of the constant capital of II c‘all these are necessary premises dovetailing into one another, but they are promoted by a very complicated process including three processes of circulation which occur independently of one another, but

intermingle. The complicatedness of this process presents so many opportunities for abnormal deviations.

(2). The Additional Constant Capital.

III.XXI.18

The surplus-product, the bearer of surplus-value, does not cost its appropriators, the capitalists of I, anything. They are in no way obliged to advance any money or commodities in order to secure it. An advance means even in the writings of the physiocrats the general form of value materialized in elements of productive capital. Hence what they advance is nothing but their constant and variable capital. The laborer preserves by his labor not only their constant capital; he reproduces not only the value of their variable capital by creating corresponding qualities of new values; he supplies them also by his surplus-labor with surplus-values in the form of surplus-products. By the successive sale of this surplus-product, they accumulate a hoard, additional potential money-capital. In the present case, this surplus-product consists at the outset of means of production used in the creation of means of production. It is not until it reaches the hands of B, B', B'', etc. (I), that this surplus-product serves as additional constant capital. But it is virtually that even in the hands of the accumulators of hoards, the capitalists A, A', A'', (I), before it is sold. If we consider merely the volume of values of the reproduction on

the part of I, then we are still moving within the limits of simple reproduction, for no additional capital has been set in motion for the purpose of creating this virtual additional constant capital (the surplus-product), nor has any greater amount of surplus-labor been performed than that done on the basis of simple reproduction. The difference is here only one of the form of the surplus-labor performed, of the concrete nature of its particularly useful service. It is expended in means of production for department I c instead of II c, in means of production of means of production instead of means of production of articles of consumption. In the case of simple reproduction it had been assumed that the entire surplus-value was spent as revenue in commodities of II. Hence it consisted only of such means of production as restore the constant capital of II c in its natural form. In order that the transition from simple to expanded reproduction may take place, the production in department I must be enabled to create fewer elements for the constant capital of II and more for that of I. This transition, which will not always take place without difficulties, is facilitated by the fact that some of the products of I may serve as means of production in either department.
III.XXI.19

Considering the matter merely from the point of view of the volume of values, it follows, then, that the material requirements of expanded reproduction are produced within simple reproduction. It is simply a question of the expenditure of the surplus-labor of the working class

of I for the production of means of production, the creation of virtual additional capital of I. The virtual additional money-capital, created on the part of A, A', A'', by the successive sale of their surplus-product, which was formed without any capitalist expenditure of money, is in this case simply the money-form of the additional means of production made by I.
III.XXI.20

The production of virtual additional capital expresses in our case (we shall see that it may also be formed in a different way) merely the fact that it is a phenomenon of the process of production itself, the production of elements of productive capital in a particular form.
III.XXI.21

The production of virtual additional money-capital on a large scale, at numerous points of the periphery of circulation, is therefore but a result and expression of a multifarious production of virtual additional productive capital, whose rise does not itself require any additional expenditure of money on the part of the industrial capitalists.
III.XXI.22

The successive transformation of this virtual additional productive capital into virtual money-capital (hoard) on the part of A, A', A'', etc., (I), conditioned on the successive sale of their surplus-product, which is a repeated onesided sale without a compensating purchase, is

accomplished by a repeated withdrawal of money from circulation and a corresponding formation of a hoard. This hoarding, except in the case of buyers who are gold producers, does not in any way imply an addition to the wealth in precious metals, but only a change of function on the part of money previously circulating. A while ago it served as a medium of circulation, now it serves as a hoard, as a virtual additional money-capital in process of formation. In other words, the formation of additional money-capital and the volume of the precious metals existing in a certain country are not directly connected facts.
III.XXI.23

Hence it follows furthermore: The greater the productive capital already serving in a certain country (including the labor-power incorporated in it as the producer of the surplus-product), the more developed the productive power of labor and at the same time the technical appliances for the rapid extension of the production of means of production, the greater furthermore the quantity of the surplus-product both as to value and mass, so much greater is
III.XXI.24

(1) The virtual additional productive capital in the form of a surplus-product in the hands of A, A', A'', etc., and
III.XXI.25

(2) The mass of this surplus-product transformed into money, in other words, the virtual additional money-capital in the hands of A, A', A''. The fact that Fullerton, for instance, will have nothing to do with any overproduction in the ordinary meaning of the term, but only with the overproduction of capital, meaning money-capital, shows how pitifully little even the best bourgeois economists understand of the mechanism of their own system.
III.XXI.26

While the surplus-product, directly produced and appropriated by the capitalists A, A', A'' (I), is the actual basis of the accumulation of capital, that is to say, of expanded reproduction, although it does not actually serve in this capacity until it reaches the hands of the capitalists B, B', B'', etc. (I), it is quite unproductive in its chrysalis stage of money, of a hoard representing virtual money-capital in process of formation. It runs parallel with the process of production, but moves outside of it. It is a dead weight of capitalist production. The desire to utilize this surplus-value, while accumulating as virtual money-capital, for the purpose of deriving profits or revenue from it, finds in the credit system and paper securities its consummation. Money-capital thereby gains in another form an enormous influence on the course and the stupendous development of the capitalist system of production.
III.XXI.27

The surplus-product converted into virtual money-capital will grow so much more in volume, the greater the aggregate amount of capital actually engaged which produced it by its function. With the absolute increase of the volume of the annually reproduced virtual money-capital its segmentation also becomes easier, so that it is more rapidly invested in a certain business, either in the hands of the same capitalist or in those of others (for instance members of the family, in the case of a division of inheritances, etc.). By segmentation of money-capital I mean in this case that it is wholly detached from the parent capital in order to be invested as a new money capital in a new and independent business.
III.XXI.28

While the sellers of the surplus-product, A, A', A'', etc., (I), have obtained it as a direct outcome of the process of production, which does not require any additional act of circulation aside from the advance of constant and variable capital made even in simple reproduction; and while they thereby construct the real basis for a reproduction on an expanded scale, seeing that they manufacture virtually additional capital‘the attitude of B, B', B'' ,'' etc., (I), is different. (1) The surplus-product of A, A', A'', etc., does not actually serve as additional constant capital until it reaches the hands of B, B', B'', etc. (We leave out of consideration for the present the other elements of productive capital, the additional labor-power, in other

words, the additional variable capital). (2) In order that the surplus-product may reach their hands, they must buy it.
III.XXI.29

In regard to point 1, it may be noted that a large portion of the surplus-product (virtual additional constant capital) is produced by A, A', A'', (I), in the course of the current year, but may not serve as industrial capital in the hands of B, B', B'', (I), until next year, or still later. With reference to point 2, the question is: Whence comes the money required for the process of circulation?
III.XXI.30

To the extent that the products created by B, B', B'', etc., (I), re-enter in their natural form into their own process, it goes without saying that a corresponding portion of their own surplus-product is transferred directly (without any intervention of circulation) to their productive capital and becomes an element of additional constant capital. To the same extent they do not help to convert any surplus-product of A, A', A'', etc., (I), into money. Aside from this where does the money come from? We know that they have formed their hoard in the same way as A, A', etc., by the sale of their respective surplus-products. Now they have arrived at the point where their accumulated hoard of virtual money-capital is to enter effectually upon its function as additional money-capital. But this is merely turning around in a circle. The question still remains: Where does the money come from,

which the various B's (1) withdrew from the circulation and accumulated?
III.XXI.31

Now we know from the analysis of simple reproduction, that the capitalists of I and II must have a certain amount of ready money in their hands, in order to be able to dispose of their surplus-products. In that case, the money which served only for the spending of revenue in articles of consumption returned to the capitalists in the same measure in which they advanced it for the purpose of disposing of their commodities. Here the same money re-appears, but in a different function. The A's and B's supply one another alternately with the money for converting their surplus-product into virtual additional capital, and throw the newly formed money-capital alternately into circulation as a medium of purchase.
III.XXI.32

The only assumption made in this case is that the amount of money existing in a certain country (the velocity of circulation, etc., being the same) suffices for both the active circulation and the reserve hoard. It is the same assumption which had to be made in the case of the simple circulation of commodities, as we have seen. Only the function of the hoards is different in the present case. Furthermore, the existing amount of money must be larger, first, because all the products (with the exception of the newly produced precious metals

and the few products consumed by the producer himself) are produced as commodities under capitalist production and must, therefore, pass through the stage of money; secondly, because on a capitalist basis the quantity of the commodity-capital and the volume of its value is not only absolutely greater, but also grows with much greater rapidity; thirdly, an ever more voluminous variable capital must be converted into money-capital; fourthly, with the extension of production, the formation of new money-capital keeps step, so that the material for it must be available in the form of a hoard. III.XXI.33

While this is a common truism for the first phase of capitalist production, in which even the credit system is accompanied by a prevalence of metallic circulation, it applies even to the most developed phase of the credit system to the extent that metallic circulation remains its basis. On the one hand, the additional production of precious metals may exert a disturbing influence on the prices of commodities according to whether it is abundant or scarce, not only in long, but also in very short intervals. On the other hand, the entire mechanism of credit is continually occupied in reducing the actual metallic circulation to a relatively more and more decreasing minimum by means of sundry operations, methods, and technical devices. To the same extent are the artificiality of the entire mechanism and the possibility of disturbing its normal flow increased. III.XXI.34

It may be that the different B, B', B'', etc., (I), whose virtual new capital enters upon its active function, are compelled to buy from one another their product (portions of their surplus-product) or to sell it to one another. In that case the money advanced by them for the circulation of their surplus-product flows back under normal conditions to the different B's in the same proportion in which they advanced it for the circulation of their respective commodities. If the money circulates as a medium of payment, then only balances are to be paid so far as the alternate purchases and sales do not cover one another. But it is important to assume here, as everywhere, metallic circulation in its simplest form, because then the flux and reflux, the balancing of accounts, in short all elements appearing as consciously directed processes under the credit system, appear as forms independent of the credit system, show themselves in their primitive form instead of their later, reflected, one.

(3). The Additional Variable Capital.

III.XXI.35

Hitherto we have been dealing only with additional constant capital. Now we must direct our attention to a consideration of the additional variable capital.

III.XXI.36

We have explained at great length in volume I that labor-power is always held available under the capitalist system of production, and that more labor can be set in motion, if necessary, without increasing the number of laborers, or quantity of labor-power, employed. We need not detail this any further for the present, but assume without ceremony that the portion of the newly created money-capital which is to be converted into variable capital will always find as much labor-power as it cares to transform. It has also been explained in volume I that a certain capital may expand its volume of production within certain limits without any accumulation. But now we are dealing with the accumulation of capital in the strict meaning of the term, so that the expansion of production is conditioned on the conversion of surplus-value into additional capital, and thus on an expansion of the basis of productive capital.
III.XXI.37

The gold producer can accumulate a portion of his golden surplus-value as a virtual money-capital. As soon as it reaches a sufficient volume, he can transform it directly into new variable capital, without first selling his surplus-product. In the same way he can convert it into the elements of constant capital. But in this last case, he must find the material elements of constant capital at hand. This may be accomplished by having each producer working to stock his supply, as was hitherto assumed, and then bringing his finished product on the

market, or by having them work to fill orders. The actual expansion of production, that is to say, the surplus-product, is assumed in either case, in the one case as actually on hand, in the other as virtually available, because ordered.

II. ACCUMULATION IN DEPARTMENT 2.

III.XXI.38

We have hitherto assumed that the capitalists A, A', A'', etc., (I), sell their surplus-product to the capitalists B, B', B'', etc., who belong to the same department. But take it now that A (I) converts his surplus-product into gold by selling it to a capitalist B in department II. This can be done only by the sale of means of production on the part of A (I) to B (II) without a subsequent purchase of articles of consumption, in other words, only by a one-sided sale on A's part. Now we have seen that II c cannot be converted into the natural form of productive constant capital unless not only I v, but also at least a portion of I s, is exchanged for a portion of II c, which II c exists in the form of articles of consumption. But now that A has converted his I s into gold by making this exchange impossible and withdrawing the money obtained from II c out of circulation, instead of spending it for articles of consumption of II c, there is indeed on the part of A (I) a formation of additional virtual money-capital, but on the other hand there is a corresponding portion of the value of

the constant capital B (II) held in the form of commodity-capital, unable to transform itself into natural productive constant capital. In other words, a portion of the commodities of B (II), and at that a portion which must be sold if he wishes to reconvert his entire constant capital into its productive form, has become unsaleable. To that extent there is an over production, which clogs reproduction, even on the same scale.
III.XXI.39

In this case, the additional virtual money-capital on the side of A (I) is indeed a gilded form of surplus-product (surplus-value), but the surplus-product (surplus-value) as such is as yet but a phenomenon of simple reproduction, not of reproduction on an expanded scale. In order that the reproduction of II c may take place on the same scale, I (v + s) must ultimately be exchanged for II c, and this applies at all events to a portion of I s. By the sale of his surplus-product to B (II), A (I) has supplied to B (II) a certain portion of the value of constant capital in its natural form. But at the same time he has rendered an equal portion of the value of the commodities of B (II) unsaleable by withdrawing the money from circulation and not making a compensating purchase. Hence, if we view the entire social reproduction, which comprises both the capitalists of I and II, then the conversion of the surplus-product of A (I) into a virtual money-capital implies the impossibility of reconverting an equal portion of the value of the commodity-capital of B (II) into productive (constant)

capital, in other words, not a virtual production on an enlarged scale, but an obstruction of simple reproduction, a deficit in the simple reproduction. As the formation and sale of the surplus-product of A (I) are normal phenomena of simple reproduction, we have here even on the basis of simple reproduction the following mutually interdependent phenomena: The formation of virtual additional money-capital in department I (implying underconsumption in department II); the stagnation of commodities of department II which cannot be reconverted into productive capital (implying a relative overproduction in department II); a surplus of money-capital in department I and a deficit in the reproduction of department II.
III.XXI.40

Without pausing any longer at this point, we simply repeat that we had assumed in the analysis of simple reproduction that the entire surplus-value of I and II is spent as revenue. As a matter of fact, however, one portion of the surplus-value is spent as revenue, and another is converted into capital. Actual accumulation can take place only on this condition. That accumulation should take place at the expense of consumption, is, as a general assumption, an illusion contradicting the nature of capitalist production. For it takes for granted that the aim and compelling motive of capitalist production is consumption, instead of the gain of surplus-value and its capitalization, in other words, accumulation.

III.XXI.41

Let us now take a closer look at the accumulation in department II.
III.XXI.42

The first difficulty with reference to II c, that is to say the conversion of an element of the commodity-capital of II into the natural form of constant capital of II, concerns simple reproduction.
III.XXI.43

Let us take the formula previously used.

(1000 v + 1000 s) I are exchanged for 2000 II c.

III.XXI.44

Now, if one half of the surplus-product of I, or 500 s, is reincorporated in department I as constant capital, then this portion, being detained in department I, cannot take the place of any portion of II c. Instead of being converted into articles of consumption, it is made to serve as an additional means of production in department I itself (and it must be noted that in this section of the circulation between I and II the exchange is actually mutual, consisting of a double change of position, different from the substitution of 1000 I v for 1000 II c by the laborers of I). It cannot perform this function

simultaneously in I and II. The capitalist cannot spend the value of his surplus-product for articles of consumption, and at the same time consume the surplus-product itself productively, by incorporating it in his productive capital. Instead of 2000 I(v + s), only 1500 are exchangeable for 2000 II c, namely 1000 v + 500 s of I. But 500 I c cannot be reconverted from the form of commodities into productive constant capital of II. Hence there would be an overproduction in department II, equal in volume to the expansion of production in department I. This overproduction of II might react to such an extent on department I that even the reflux of the 1000 v spent by the laborers of I for articles of consumption of II might take place but partially, so that these 1000 would not return to the hands of the capitalists of I in the form of variable money-capital. In that case, these capitalists would be hampered even in reproduction on a simple scale by the mere attempt of expanding it. And it must be remembered in this connection that department I had actually resumed only simple reproduction, and that only the elements classified in our diagram were differently grouped with a view of expanding in the future, say, next year.
III.XXI.45

One might attempt to circumvent this difficulty in the following way: The 500 II c which are held by the capitalists, and cannot be immediately converted into productive capital, do not by any means represent any overproduction, but are, on the contrary, a necessary

element of reproduction, which we have so far neglected. We have seen that a money supply must be accumulated at many points by withdrawing it from circulation, either for the purpose of facilitating the formation of new money-capital in department I, or to the end of temporarily holding the gradually depreciating portion of the fixed capital in the form of money. But since we have placed all the available money and commodities exclusively into the hands of the capitalists of I and II, when we made up our diagram, eliminating merchants, money-changers, and bankers, and all merely consuming and not directly producing classes, it follows that the formation of supplies of commodities in the hands of their respective producers is here indispensable in order to keep the machinery of reproduction in motion. The 500 II c now held in stock by the capitalists of II therefore represent the supply of articles of consumption by which the continuity of the process of consumption included in the process of reproduction is promoted. This means in the present case the transition from this year into next. The fund for consumption, which is as yet in the hands of its sellers and producers cannot fall to the point of zero and begin with zero next year, any more than such a thing can take place in the transition from to-day to to-morrow. Since new supplies of commodities must be continually accumulated, even though their volume may differ, our capitalist producers of department II must have a reserve capital, which enables them to continue their process of production, although one portion of their productive capital is temporarily tied up in the shape of commodities. Our assumption is

all the time that they combine the business of a merchant with that of a producer. Hence they must also have at their disposal an additional money-capital, which would be in the hands of merchants, if the various functions in the process of reproduction were distributed among independent capitalists.
III.XXI.46

But we would reply to this argument: (1) That the forming of such supplies and the necessity for it applies to all capitalists, those of I as well as of II. Considering them in their capacity as sellers of commodities, they differ only by the fact that they sell different kinds of commodities. A supply of commodities of II implies a previous supply of commodities of I. If we neglect this supply on one side, we must also do so on the other. But if we count them in on both sides, the problem is not altered in any way. (2) Just as this year closes on the side of II with a supply of commodities for next year, so it was opened by a supply of commodities on the same side, taken over from last year. In the analysis of annual reproduction, reduced to its abstract form, we must therefore strike it out at both ends. By leaving this year in possession of its entire production, including the supply held for next year, we take from it the supply of commodities transferred from last year, and thus we have actually to deal with the aggregate product of an average year as the object of our analysis. (3) The simple circumstance that the difficulty which must be overcome did not show itself in the analysis of simple reproduction

proves that it is a specific phenomenon due merely to the different arrangement of the elements of department I with a view to reproduction, an arrangement without which reproduction on an expanded scale cannot take place at all.

III. DIAGRAMMATIC PRESENTATION OF ACCUMULATION.

III.XXI.47

We now study reproduction by means of the following diagram:

Diagram a) I. 4000 c + 1000 v + 1000 s = 6000 Total, 8252
II. 1500 c + 376 v + 376 s = 2252
III.XXI.48

We note in the first place that the total volume of the annual product is smaller than that of the first diagram, being 8252 instead of 9000. We might just as well assume a much larger sum, for instance one ten times larger. We have chosen a smaller sum than in our first diagram, in order to demonstrate, that reproduction on an enlarged scale (which is here regarded merely as a production carried on with a larger investment of capital) has nothing to do with the absolute volume of the product, and that it implies merely a different arrangement, a different distribution of functions to the various

elements of a certain product, so that it is but a simple reproduction so far as the value of the product is concerned. It is not the quantity, but the destination of the given elements of simple reproduction which is changed, and this change is the material basis of a subsequent reproduction on an enlarged scale.*58
III.XXI.49

We might vary the diagram by changing the proportions between the variable and constant capital. For instance this way:

Diagram b) I. 4000 c + 875 v + 875 s = 5750 Total, 8252
II. 1750 c + 376 v + 376 s = 2502
III.XXI.50

In this case, the diagram would be arranged for reproduction on a simple scale, so that the surplus-value would be entirely consumed as revenue, instead of being accumulated. In either case, that of (a) as well as (b), we have an annual product of the same value. Only (b) has the functions of its elements arranged in such a way that reproduction is resumed on the same scale, while in the case of (a) the arrangement forms the material basis of reproduction on an enlarged scale. For in the case of (b), the factors (875 v + 875 s)I, equal to 1750 I(v + s), are exchanged without any remainder for 1750 II c, while in the case of (a), the exchange of (1000 v + 1000

s)I, equal to 2000 (v + s)I, for 1500 II c leaves a surplus of 500 I s for accumulation in department I.
III.XXI.51

Now let us analyze diagram (a) closer. Let us assume that both I and II accumulate one half of their surplus-value, that is to say, convert it into an additional element of capital instead of spending it as revenue. When one half of 1000 I s, or 500, are accumulated in one form or another, that is to say, invested as additional money-capital, converted into additional productive capital, then only (1000 v + 500 s) I are spent as revenue. Hence 1500 is here inserted as the normal size of II c. We need not examine the exchange between 1500 I(v + s) and 1500 II c any more, because this has already been done under the head of simple reproduction. Nor does 4000 I c require any attention, since its re-arrangement was likewise discussed under the head of simple reproduction, although this re-arrangement is now preparing for a new reproduction on an enlarged scale.
III.XXI.52

The only thing which remains for us to examine is 500 I s and (376 v + 376 s)II, both as regards the internal conditions of the two departments and the movements between them. Since we have assumed that department II is likewise accumulating one half of its surplus-value, 188 are to be converted into capital, of which one

fourth, or 47, or, to round it off, 48, are variable capital, so that 140 remain to be converted into constant capital.
III.XXI.53

Here we come across a new problem, whose very existence must appear strange to the current idea that commodities of one kind are exchanged for commodities of another kind, or commodities for money and the same money for commodities of another kind. The 140 II c can be converted into productive capital only by exchanging them for commodities of I s of the same value. It is a matter of course that that portion of I s which must be exchanged for II s must consist of means of production, which may either be fit for service in the production of both I and II, or exclusively adapted to the production of II. This change of place can be made only by means of a onesided purchase on the part of II, as the entire remaining surplus-product of 500 I s, which we shall presently examine, is reserved for accumulation in department I and cannot be exchanged for commodities of II; in other words, it cannot be simultaneously accumulated and consumed by I. Therefore department II must buy 140 I s for cash without recovering this money by a subsequent sale of its commodities to I. And this is a process which is continually repeated in every new annual production, so far as it is reproduction on an enlarged scale. Where does II get the money for this?
III.XXI.54

It rather seems as though department II were a very unprofitable field for the formation of new money-capital, by means of simple hoarding, which accompanies actual accumulation and is its basis under capitalist production.
III.XXI.55

We have first 376 II v. The money-capital of 376, advanced for labor-power, returns through the purchase of commodities of II continually as variable capital to the capitalists of II. This continually repeated departure from and return to the starting point, the pocket of the capitalist, does not add in any way to the money moving in this cycle. This, then, is not a source of the accumulation of money. Nor can this money be withdrawn from circulation in order to form a hoard, or virtual new money-capital.
III.XXI.56

But stop! Isn't there a chance to make a little profit?
III.XXI.57

We must not forget that class II has the advantage over class I that its laborers must buy back from it the commodities produced by themselves. Department II is a buyer of labor-power and at the same time a seller of the commodities to the owners of the labor-power employed by it. Department II, then, may do two things.
III.XXI.58

(1) It may depress the wages below its average level, and this privilege it shares with department I. By this means a portion of the money serving in the function of variable capital is released, and if this process is continually repeated, it may become a normal source of hoarding, and thus of virtual additional money-capital in department II. Of course we are not referring to a casual stolen profit here, since we are speaking of a normal formation of capital. But it must not be forgotten that the wages actually paid (which determine the magnitude of the variable capital under normal conditions) do not depend on the benevolence of the capitalists, but must be paid under certain conditions. This does away with this expedient as a source of additional money. If we assume that 376 v is the variable capital at the disposal of department II, we cannot suddenly substitute the hypothesis that the capitalists pay only 350 v instead of 376 v, merely because we are confronted by a new problem.
III.XXI.59

(2) On the other hand, department II, taken as a whole, has the above mentioned advantage over I that it is at the same time a buyer of labor-power and a seller of commodities to its own laborers. Every industrial country furnishes the most tangible proofs to what extent this may be exploited, by paying nominally the normal wages, but grabbing, or in plain words, stealing back a large portion without a corresponding equivalent in wages; by accomplishing the same thing

either through the truck system, or through a falsification of the medium of circulation (perhaps in a way that cannot be punished by law). England and America furnish such instances. (Illustrate this by some striking examples). This is the same operation as under (1), only disguised and carried out by a detour. Therefore it must likewise be rejected as an explanation of the present problem. The question is here of actually paid, not of nominal wages.
III.XXI.60

We see that some extraordinary disfigurations on the face of capitalism cannot be used in an objective analysis of the mechanism of capitalism as an excuse to get over some theoretical difficulties. But strange to say, the great majority of my bourgeois critics score me as though I had wronged the capitalists by assuming in volume I of this work that they really pay labor-power at its value, a thing which they rarely do! (Here I may exercise some of the magnanimity attributed to me by quoting Schaeffle.)
III.XXI.61

In short, we cannot accomplish anything with 376 II v for the solution of this question.
III.XXI.62

But it seems to be still more impossible to do anything with 376 II s. Here the capitalists of the same department are standing face to face,

mutually buying and selling their articles of consumption. The money required for these transactions serves only as a medium of circulation and must flow back to the interested parties in the normal course of things, to the extent that they have advanced it to the circulation, in order to pass again and again over the same course.
III.XXI.63

There seem to be only two ways by which this money can be withdrawn from circulation for the purpose of forming virtual additional money-capital. Either one portion of the capitalists of II cheats the others and thus robs them of their money. We know that no preliminary expansion of the circulating medium is necessary for the formation of new money-capital. All that is necessary is that money should be withdrawn from circulation by certain parties and hoarded. It would not alter the case, if this money were stolen, so that the formation of additional money-capital on the part of a portion of the capitalists of II would be accompanied by a positive loss of money on the part of others. The cheated capitalists would have to live a little less gaily, that would be all.
III.XXI.64

Or, a certain portion of II s, represented by necessities of life, might be directly converted into new variable capital of department II. How that is done, we shall examine at the close of this chapter (in section IV).

(1) First Illustration.

III.XXI.65

A. Diagram of Simple Reproduction.

I. 4000 c + 1000 v + 1000 s = 6000 Total, 9000.
II. 2000 c + 500 v + 500 s = 3000
III.XXI.66

B. Initial Diagram for Accumulation on an Expanded Scale.

I. 4000 c + 1000 v + 1000 s = 6000 Total, 9000.
II. 1500 c + 750 v + 750 s = 3000
III.XXI.67

Assuming that in diagram B one half of the surplus-value of I, amounting to 500, is accumulated, we have first to accomplish the change of place between (1000 v + 500 s)I, or 1500 I(v + s), and 1500 II c. Department I then keeps 4000 c and 500 s, the last sum being accumulated. The exchange between (1000 v + 1000 s)I and 1500 II c is a process of simple reproduction, which has been examined previously.
III.XXI.68

Let us now assume that 400 of the 500 I s are to be converted into constant capital, and 100 into variable capital. The transactions within the 400 s of I, which are to be capitalized, have already been discussed. They can be immediately annexed to I c, and in that case we get in department I

4400 c + 1000 v + 100 s (these last to be converted into 100 v).

III.XXI.69

Department II buys from I for the purpose of accumulation the 100 I s (existing in means of production), which thus become additional constant capital in department II, while the 100 in money, which this department pays for them, are converted into the money-form of the additional variable capital of I. We then have for I a capital of 4400 c + 1100 v (these last in money), a total of 5500.

III.XXI.70

Department II has now 1600 c for its constant capital. In order to be able to operate this, it must advance 50 v in money for the purchase of new labor-power, so that its variable capital grows from 750 to 800. This expansion of the constant and variable capital of II by a total of 150 is supplied out of its surplus-value. Hence only 600 of

the 750 II s remain for the consumption of the capitalists of II, whose annual product is now distributed as follows:
III.XXI.71

II. 1600 c + 800 v + 600 s (fund for consumption), a total of 3000. The 150 s, produced in articles of consumption, which have been converted into (100 c + 50 v)II, pass entirely into the consumption of the laborers in this form, 100 being consumed by the laborers of I(100 I v), and 50 by the laborers of II(50 II v), as explained above. Department II, where the total product is prepared in a form suitable for accumulation, must indeed reproduce surplus-value in the form of necessary articles of consumption exceeding the other portions by 100. If reproduction really starts on an expanded scale, then the 100 of variable money-capital of I flow back to II through the hands of the laborers of I, while II transfers 100 s in commodities to I and at the same time 50 in commodities to its own laborers.
III.XXI.72

The change made in the arrangement for the purpose of accumulation now presents the following aspect:

I. 4400 c + 1100 v + 500 fund for consumption = 6000
II. 1600 c + 800 v + 600 fund for consumption = 3000
Total, as before, 9000
III.XXI.73

Of these amounts, the following are capital:

I. 4400 c + 1100 v (money) = 5500 Total, 7900
II. 1600 c + 800 v (money) = 2400

while production started out with

I. 4000 c + 1000 v = 5000 Total, 7250.
II. 1500 c + 750 v = 2250
III.XXI.74

Now, if actual accumulation takes place on this basis, that is to say, if reproduction is actually undertaken with this increased capital, we obtain at the end of next year:

I. 4400 c + 1100 v + 1100 s = 6600 Total, 9800.
II. 1600 c + 800 v + 800 s = 3200
III.XXI.75

Then let department I continue accumulation at the same ratio, so that 550 s are spent as revenue, and 550 s accumulated. In that case, 1100 I v are first replaced by 1100 I c, and 550 I s must be realized in an equal amount of commodities of II, making a total of 1650 I(v + s). But the constant capital of II, which is to be replaced,

amounts only to 1600, and the remaining 50 must be made up out of 800 II s. Leaving aside the money aspect of the matter, we have as a result of this transaction:

I. 4400 c + 550 s (to be capitalized); furthermore, realized in commodities of II for the fund for consumption of the capitalists and laborers of I, 1650 (v + s).

II. 1650 c (50 added from II s as indicated above) + 800 v + 750 s (fund for the consumption of the capitalists).

III.XXI.76

But if the old proportion is maintained in II between v and c, then 25 v additional must be advanced for 50 c, and these must be taken from 750 s. Then we have

II. 1650 c + 825 v + 725 s.

III.XXI.77

In department I, 550 s must be capitalized. If the former proportion is maintained, 440 of this amount form constant capital, and 110 variable capital. These 110 must be eventually taken out of 725 II s, that is to say, articles of consumption to the value of 110 are consumed by the laborers of I instead of the capitalists of II, so that

the latter are compelled to capitalize these 110 s which they cannot consume. This leaves 615 II s of the 725 II s. But if II thus converts these 110 into additional constant capital, it requires an additional variable capital of 55. This again must be taken out of its surplus value. Subtracting this amount from 615 II s, we find that only 560 II s remain for the consumption of the capitalists of II, and we obtain the following values of capital after accomplishing all actual and potential transfers:

I. (4400c + 440c) + (1100v + 110v) = 4840c + 1210v =6050
II. (1600c + 50c + 110c) + (800v + 25v + 55v) = 1760c + 880v
=2640
Total... 8690
III.XXI.78

If things are to proceed normally, accumulation in II must take place more rapidly than in I, because that portion of I (v + s) which must be converted into commodities of II c, would otherwise grow more rapidly than II c, for which it can alone be exchanged.
III.XXI.79

If reproduction is continued on this basis and with otherwise unchanged conditions, then we obtain at the end of the following year:

I. 4840 c + 1210 v + 1210 s = 7260 Total, 10,780
II. 1760 c + 880 v + 880 s = 3520
III.XXI.80

If the rate of division of the surplus-value remains unchanged, then the capitalists of I have first to spend as revenue 1210 v and one-half of s, or 605, a total of 1815. This revenue fund is again larger than II c by 55. These 55 must be taken from 880 s, leaving 825. Furthermore, the conversion of 55 II s into II c implies another deduction from II s for a corresponding variable capital of 27.5, leaving for consumption 797.5 II s.
III.XXI.81

Department I has now to capitalize 605 s. Of these 484 are constant, and 121 variable capital. The last named sum, deducted from 797.5 II s, leaves 676.5 II s. Department II, then, converts another 121 into constant capital and requires another variable capital of 60.5 for it, which likewise comes out of 676.5 II s, leaving for consumption 616.
III.XXI.82

Then we have the following capitals:

I. Constant capital : 4840 + 484 = 5324.
Variable capital : 1210 + 121 = 1331.
II. Constant capital : 1760 + 55 + 121 = 1936.

Variable capital : 880 + 27.5 + 60.5 = 968.

Totals : I. 5324 c + 1331 v = 6655 Grand total 9559.

II. 1936 c + 968 v = 2904

III.XXI.83

And at the end of the year the product is

I. 5324 c + 1331 v + 1331 s = 7986 Total, 11,858.

II. 1936 c + 968 v + 968 s = 3872

III.XXI.84

Repeating the same calculation and rounding off the fractions, we get at the end of the following year the product:

I. 5856 c + 1464 v + 1464 s = 8784 Total, 13,033.

II. 2129 c + 1065 v + 1065 s = 4249

III.XXI.85

And at the end of the following year:

I. 6442 c + 1610 v + 1610 s = 9662 Total, 14,348.

II. 2342 c + 1172 v + 1172 s = 4686

III.XXI.86

In the course of four years of reproduction on an expanded scale the aggregate capital of I and II has risen from 5400 c + 1750 v = 7150 to 8784 c + 2782 v = 11,566, in other words at the rate of 100:160. The total surplus-value was originally 1750, it is now 2782. The consumed surplus-value was originally 500 for I and 535 for II, a total of 1035. In the last year it was 732 for I and 985 for II, a total of 1690. It has therefore grown at the rate of 100 : 163.

(2). Second Illustration.

III.XXI.87

Now take the annual product of 9000, which is altogether a commodity-capital in the hands of the industrial capitalist class, a form in which the average ratio of the variable to the constant capital is that of 1 : 5. This presupposes a considerable development of capitalist production and accordingly of the productivity of social labor, a previous expansion of the scale of production to a considerable extent, and finally a development of all circumstances which bring about a relative overpopulation among the working class. The annual product will then be divided as follows, after rounding off the various fractions:

I. 5000 c + 1000 v + 1000 s = 7000 Total, 9000.
II. 1430 c + 285 v + 285 s = 2000

III.XXI.88

Now take it that the capitalist class of I consumes one-half of its surplus-value, or 500, and accumulates the other half. In that case (1000 v + 500 s) I, or 1500, must be converted into 1500 II c. Since II c amounts to only 1430, it is necessary to take 70 from the surplus-value. Subtracting this sum from 285 II s leaves 215 II s. Then we have:

I. 5000 c + 500 s (to be capitalized) + 1500 (v + s) in the fund set aside for consumption by capitalists and laborers.

II. 1430 c + 70 s (to be capitalized) + 285 v + 215 s.

III.XXI.89

As 70 II s are directly annexed by II c, a variable capital of 70-5, or 14, is required to set this additional constant capital in motion. These 14 must come out of the 215 s, so that only 201 remain, and we have:

II. (1430 c + 70 c) + (285 v + 14 v) + 201 s.

III.XXI.90

The disposal of 1500 I (v + ½ s) is a process of simple reproduction, and this has been dealt with. However, a few peculiarities remain to be noted here, which arise from the fact that in reproduction on an expanding scale I (v + ½ s) is not made up solely by way of II c, but by II c plus a portion of II s.
III.XXI.91

It goes without saying that as soon as we assume a process of accumulation, I (v + s) is greater than II c, not equal to II c, as it is in simple reproduction. For in the first place, department I incorporates a portion of its own surplus-product in its productive capital, and converts five-sixths of it into constant capital, so that it cannot exchange these five-sixths simultaneously for articles of consumption of department II. In the second place, department I has to supply out of its surplus-product the material for the accumulation of the constant capital of II, just as II has to supply I with the material for the variable capital, which sets in motion a portion of the surplus-product of I used as additional constant capital. We know that the actual variable capital consists of labor-power, and therefore the additional must consist of the same thing. It is not the capitalist of I who among other things buys from II a supply of necessities of life for his laborers, or accumulates them for this purpose, as the slave-holder had to do. It is the laborers themselves who trade with II. But this does not prevent the capitalist from regarding the articles of consumption of his eventual additional labor-power as so many means

of production and maintenance of that labor-power, or the natural form of his variable capital. His own immediate operation, in the present case that of department I, consists in merely storing up the new money-capital required for the purchase of additional labor-power. As soon as he has incorporated this labor-power in his productive capital, the money becomes a medium for the purchase of commodities of II on the part of this labor-power, which must find these articles of consumption at hand.
III.XXI.92

By the way, the capitalist and his press are often dissatisfied with the way in which the laborer spends his money and with the commodities of II for which he spends it. On such occasions the capitalist philosophizes, babbles of culture, and dabbles in philanthropical talk, for instance after the manner of Mr. Drummond, the Secretary of the British Legation in Washington. According to him, "The Nation" (a journal) contained on the last of October, 1879, an interesting article, which contained the following passages "The laborers have not kept step in their civilization with the progress of inventions; a mass of objects have become accessible to them which they do not know how to make use of, and for which they do not create a market." (Every capitalist naturally wants the laborer to buy his commodities.) "There is no reason why the laborer should not desire as much comfort as the clergyman, the lawyer, and the physician, who earn the same amount as he." (This class of clergymen, lawyers, and physicians have

indeed to be satisfied with wishing for a good many comforts!) "But he does not do so. The question is still, how he may be raised as a consumer by a rational and healthy method; not an easy question, since his whole ambition does not reach beyond a reduction of his hours of labor, and the demagogue incites him to this rather than to elevating his condition by an improvement of his intellectual and moral qualities." (Reports of H. M.'s Secretaries of Embassy and Legation on the Manufactures, Commerce, etc., of the countries in which they reside. London, 1879, page 404.)
III.XXI.93

Long hours of labor seem to be the secret of the rational and healthy method, which is to elevate the condition of the laborer by an improvement of his intellectual and moral faculties and to make a rational consumer of him. In order to become a rational consumer of the commodities of the capitalist, he should above all begin to let the capitalist consume his labor-power irrationally and unhygienically‘but the demagogue prevents him! What the capitalist means by a rational consumption, is evident wherever he is condescending enough to engage directly in the trade with his own laborers, in the truck system, which includes also among other lines the supplying of homes to the laborers, so that the capitalist is at the same time a landlord.
III.XXI.94

The same Drummond, whose beautiful soul is enamored of the capitalist attempts to elevate the working class, tells in the same report among other things of the cotton goods manufacture in the Lowell and Lawrence Mills. The boarding and lodging houses for the factory girls belong to the company that owns the factories. The landladies of these houses are in the pay of the same company and act according to its instructions. No girl is permitted to stay out after 10 P. M. Then comes a gem: The special police of the company patrol the surrounding country, in order to prevent a violation of this rule. After 10 P. M., no girl can leave or enter any of these houses. No girl can live anywhere but on the land of the company, and every house on this land brings about 10 dollars per week in rent. And now we see the rational consumer in his full glory: "But since the omnipresent piano is found in many of the best lodging houses of the working girls, music, singing, and dancing play a prominent role at least among those, who after ten hours of unremitting labor at the loom need a change after this monotony rather than actual rest." (Page 412) But the main secret of making a rational consumer of the laborer is yet to be told. Mr. Drummond visits the cutlery factory of Turner's Falls, Connecticut River, and Mr. Oakman, the treasurer of the company, after telling him that especially American table knives beat the English goods in quality, continues: "But we shall beat England also in the matter of prices, we are ahead of it in quality even now, that is acknowledged; but we must have lower prices, and we shall get them as soon as we get our steel cheaper and bring down our

labor." (427). A reduction of wages and long hours of labor, that is the essence of the rational and healthy method which is to elevate the laborer to the dignity of a rational consumer, in order that he may create a market for the mass of objects which civilization and the progress of invention have made accessible to him.

III.XXI.95

To repeat, then, just as department I has to supply the additional constant capital of II out of its surplus-value, so II supplies the additional variable capital for I. Department II accumulates for itself and for I, so far as the variable capital is concerned, by reproducing a greater portion of its total product, especially of its surplus-product, in the shape of necessary articles of consumption.
III.XXI.96

I (v + s), in the case of production on the basis of increasing capital, must be equal to II c plus that portion of the surplus-product which is re-incorporated as capital, plus the additional portion of constant capital required for the expansion of the production of II; and the minimum of this expansion is that without which actual accumulation, that is to say, an actual expansion of the production of I, is impossible.
III.XXI.97

Reverting now to the case which we examined last, we find that it has the peculiarity that II c is smaller than I (v + ½ s), smaller than that portion of the product of I which is spent as revenue for articles of consumption, so that a portion of the surplus-product of II, equal to 70, is at once realized for the purpose of disposing of the 1500 I (v + s). As for II c, equal to 1430, it must, other circumstances remaining the same, be reproduced out of an equal amount of I (v + s), in order that simple reproduction may take place, and to that extent we need not pay any more attention to it. It is different with the additional 70 II c. That which is for I merely an exchange of revenue for articles of consumption, is for II more than a mere reconversion of its constant capital from the form of commodity-capital into its natural form, as it is in simple reproduction, for it is a process of direct accumulation, a transformation of a portion of its surplus-product from the form of articles of consumption into that of constant capital. If I buys with 70 p. st. in money (money-reserve for the conversion of surplus-value) the 70 II s, and if II does not buy in exchange 70 I s, but accumulates the 70 p. st. as money-capital, then this money is indeed always the expression of an additional product (namely the surplus-product of II, the equivalent of which it is), although this is not a product which returns into the production; but in that case this accumulation of money on the part of II would be the evidence that 70 I s in means of production are unsaleable. There would be a relative overproduction in I, corresponding to a simultaneous break in the reproduction of II.

III.XXI.98

But apart from this, the following point must be noted: During the time in which the 70 in money, which came from I, have not as yet returned to it, or have but partially done so, by the purchase of 70 I s on the part of II, this 70 in money figures entirely or in part as additional virtual money-capital in the hands of II. This is true of every transaction between I and II, before the mutual replacement of their respective commodities has accomplished the reflux of the money to its starting point. But the money, under a normal condition of things, figures here only temporarily in this role. In the credit system, however, where all momentarily released money is to be used immediately as an active additional money-capital, such a temporarily released money-capital may be engaged, for instance, in new enterprises of I, while it still would have to liquidate additional products held in other enterprises. It must also be noted that the annexation of 70 I s to the constant capital of II requires at the same time an expansion of the variable capital of II to the extent of 14. This implies, similarly as it did in the direct incorporation of the surplus-product of I s in capital I c, that the reproduction in II is already in process with a view to further capitalization; in other words, it implies the expansion of that portion of the surplus-product, which consists of necessary articles of consumption.

III.XXI.99

The product of 9000, in the second illustration, must be distributed in the following manner for the purpose of reproduction, when 500 I s is to be capitalized. We merely consider the commodities in this case and leave aside the circulation of money.

I. 5000 c + 500 s (to be capitalized) + 1500 (v + s) fund for consumption, a total of 7000 in commodities.

II. 1500 c + 299 v + 201 s, a total of 2000 in commodities. Grand total, 9000 in commodities.

III.XXI.100

Capitalization takes place in the following manner:
III.XXI.101

In department I, the 500 s, which are capitalized, divide themselves into five-sixths, or 417 c, plus one-sixth, or 83 v. The 83 v draw an equal amount out of II s, which buys elements of constant capital and adds them to II c. An increase of II c by 83 implies an increase of II v by one-fifth of 83, or 17. We have, then, after this transaction

I. (5000 c + 417 s) + (1000 v + 83 s) = 5417 c + 1083 v = 6500
II. (1500 c + 83 s) + (299 v + 17 s) = 1583 c + 316 v = 1899
Total... 8399

III.XXI.102

The capital in I has grown from 6000 to 6500, or by 1-12. That of II has grown from 1715 to 1899, or by nearly 1-9.

III.XXI.103

The reproduction on this basis in the second year brings the capital at the end of that year up to the following figures:

I. (5417 c + 452 s) c + (1083 v + 90 s) v = 5869 c + 1173 v = 7042.

II. (1583c + 42s + 90s) c + (316v + 8s + 18s)v = 1715c + 342 v = 2057.

III.XXI.104

And at the end of the third year, we have as a product:

I. 5869 c + 1173 v + 1173 s.

II. 1715 c + 342 v + 342 s.

III.XXI.105

If department I then accumulates as before one-half of its surplus-value, we find that I (v + ½ s), 1173 v + 587 (½ s), amount to 1760, more than the entire 1715 II c, namely an excess of 45. This

must again be balanced by annexing an equal amount of means of production to II c, which thus grows by 45. This again requires an addition of one-fifth, or 9, to II v. Furthermore, the capitalized 587 I s are divided into five-sixths and one-sixth respectively, that is to say, 489 c and 98 v. These last 98 imply a new addition of 98 to the constant capital of II, and this again an increase of the variable capital of II by one-fifth, or 20. Then we have.

I. (5869 c + 489 s) c + (1173 v + 98 s) v = 6385 c + 1271 v = 7629.

II. (1715 c + 45 s + 98 s) c + (342 v + 9 s + 20 s) v = 1858 c + 371 v = 2229.

Total capital... 9858

III.XXI.106

In three years of reproduction on an increasing scale the total capital of I has grown from 6000 to 7629, and that of II from 1715 to 2229, or the total social capital from 7715 to 9858.

(3). Exchange of II c Under Accumulation.

III.XXI.107

In the exchange of I (v + s) with II c we meet with different cases.

III.XXI.108

Under simple reproduction, both of them must be equal and take one another's places, otherwise simple reproduction cannot proceed smoothly, as we have seen.
III.XXI.109

Under reproduction on an expanded scale, it is above all the rate of accumulation which is important. In the preceding cases we had assumed that the rate of accumulation in department I was equal to one-half of I s, and also that it remained constant from year to year. We changed merely the proportion in which this accumulated capital was divided between variable and constant capital. We then had three cases.
III.XXI.110

(1) I (v + ½s) equal to II c, which is therefore smaller than I (v + s). This must always be the case, otherwise I cannot accumulate.
III.XXI.111

(2) I (v + ½s) greater than II c. In this case the exchange is effected by adding a corresponding portion of II s to II c, so that this becomes equal to I (v + ½ s). In this case, the transaction in department II is not a simple reproduction of its constant capital, but accumulation, an augmentation of its constant capital by that portion of its surplus-product which it exchanges for means of production of

I. This augmentation implies at the same time a corresponding addition to the variable capital of II out of its own surplus-product.
III.XXI.112

(3) I (v + ½s) smaller than IIc. In this case department II had not fully reproduced its constant capital by means of exchange and had to make good the deficit by a purchase from I. But this did not require any further accumulation of variable capital on the part of II, since its constant capital was brought only to its full size by this operation. On the other hand, that portion of the capitalists of I who accumulate only additional money-capital, had already accomplished a part of this accumulation by this transaction.
III.XXI.113

The premise of simple reproduction, that I (v + s) is equal to II c, is irreconcilable with capitalist production, although this does not exclude the possibility that a certain year in an industrial cycle of 10 or 11 years may not show a smaller total production than the preceding year, so that there would not have been even a simple reproduction, compared to the preceding year. Indeed, considering the natural growth of population per year, simple reproduction could take place only in so far as a correspondingly larger number of unproductive servants would partake of the 1500 representing the aggregate surplus-product. But accumulation of capital, actual capitalist production, would be impossible under such circumstances. The fact of

capitalist production therefore excludes the possibility of II c being equal to I (v + s). Nevertheless it might occur even under capitalist production that in consequence of the process of accumulation during a preceding number of periods of production II c might not only be equal, but even greater than I (v + s). This would mean an overproduction in II and could not be compensated in any other way than by a great crash, in consequence of which some capital of II would be transferred to I. It does not alter the relations of I (v + s), if a portion of the constant capital of II reproduces itself, as happens, for instance, in the employment of home raised seeds in agriculture. This portion of II c has no more reference to the exchange between I and II than has I c. Nor does it alter the matter, if a portion of the products of II are of such a nature that they may serve as means of production in I. They are covered by a portion of the means of production supplied in II by I, and this portion must be deducted on both sides at the outset, if we wish to analyze without any obscuring interference the exchange between the two great departments of social production, the producers of means of production and the producers of articles of consumption.
III.XXI.114

To repeat, then, under capitalist production I (v + s) cannot be equal to II c, in other words, the two cannot balance. On the other hand, naming I s-x that portion of I s which is spent by the capitalists as revenue, we see that I (v + s-x) may be equal to, greater or smaller

than, II c. But I (v + s-x) must always be smaller than II (c + s), namely, as much smaller as that portion of II s which must be consumed under all circumstances by the capitalist class of II. III.XXI.115

It must be noted that in this presentation of accumulation the value of the constant capital, so far as it is a portion of the value of the commodity-capital, which it helped to produce, is not exactly represented. The fixed portion of the newly accumulated constant capital is transferred to the commodity-capital only gradually and periodically according to the different nature of these fixed elements. Where-ever raw materials and halfwrought articles are employed in large quantities for the production of commodities, the commodity-capital therefore consists overwhelmingly of objects replacing circulating constant elements and variable capital. (On account of the turn-over of the circulating elements this method may nevertheless be adopted. It is then assumed that the circulating portion together with that portion of value which the fixed capital has transferred to it is turned so often during the year that the aggregate sum of the commodities supplied is equal in value to all the capital invested in the annual production.) But wherever only auxiliary materials are used for machine work, and no raw material, there v, the labor element, must reappear in the commodity-capital as its largest factor. While in the calculation of the rate of profit the surplus-value is figured on the total capital, regardless of whether the fixed elements transfer

periodically much or little value to the product, the fixed portion of constant capital is included in the calculation of the value of any periodically created commodity-capital only to the extent that it yields a certain average of value to the product.

IV. CONCLUDING REMARKS.

III.XXI.116

The original source for the money of II is v + s of the gold producers in department I, exchanged for a portion of II c. Only to the extent that the gold producer accumulates surplus-value or converts it into means of production of I, in other words, to the extent that he expands his production, does his v + s stay out of department II. On the other hand, to the extent that the accumulation of gold on the part of the gold producer himself leads ultimately to an expansion of production, a portion of the surplus-value of gold production not spent as revenue passes into department II as additional variable capital of the gold producers, promotes the accumulation of new hoards in II and supplies it with means by which to buy from I without having to sell to it immediately. From this money derived from I (v + s) of gold production must be deducted that portion of gold which is employed by certain lines of II as raw material, etc., in short as an element for building up their constant capital. An element of preliminary reproduction, for the purpose of

future expanded production, is created for either I or II under the following conditions: For I only when a portion of I s is sold onesidedly, without a balancing purchase, to II and serves there as additional constant capital; for II, when the same case occurs on the part of I with reference to the variable capital; furthermore when a portion of the surplus-value spent by I as revenue is not covered by II c, so that a portion of II s is bought with it and thus converted into money. If I (v + s-x) is greater than II c, then II c need not for its simple reproduction make up in commodities of I what I has taken out of II s. The question is, to what extent hoarding may take place within the exchange of the capitalists of II among themselves, an exchange which can consist only of a mutual crossing of II s. We know that direct accumulation takes place within II by means of direct conversion of a portion of II s into variable capital (just as department I converts a portion of I s directly into constant capital). In the various stages of accumulation within the different lines of business of II, and for the individual capitalists of these lines, the matter explains itself, with the self-understood modifications, in the same way as in I. One side is still engaged in hoarding and sells without buying, the other is on the point of actual expansion of reproduction and buys without selling. The additional variable money-capital is first advanced for additional labor-power, but this, in its turn, buys articles of consumption from the hoarding owners of the additional articles of consumption used by the laborers. To the extent

that these owners hoard the money, it does not return to its point of departure.

Notes for this chapter

57.
From here to the end manuscript VIII.
58.
This puts an end, once for all, to the feud over the accumulation of capital between James Mill and S. Bailey, which we have discussed from our point of view in volume I, chapter XXIV, section 5, foot notes on pages 622 and 623, namely the feud concerning the extensibility of the effects of industrial capital without changing its magnitude. We shall revert to this later.

Volume III. The Process of Capitalist Production As a Whole.
Book III. The Process of Capitalist Production As a Whole.
PART I.
THE CONVERSION OF SURPLUS-VALUE INTO PROFIT AND OF THE RATE OF SURPLUS-VALUE INTO THE RATE OF PROFIT.
Part I,

Volume III Chapter I COST PRICE AND PROFIT.

I.I.1

IN the first volume we analyzed the phenomena presented by the process of capitalist production, considered by itself as a mere productive process without regard to any secondary influences of conditions outside of it. But this process of production, in the strict meaning of the term, does not exhaust the life circle of capital. It is supplemented in the actual world by the process of circulation, which was the object of our analysis in the second volume. We found in the course of this last-named analysis, especially in part III, in which we studied the intervention of the process of circulation in the process of social reproduction, that the capitalist process of production, considered as a whole, is a combination of the processes of production and circulation. It cannot be the object of this third volume to indulge in general reflections relative to this combination. We are rather interested in locating the concrete forms growing out of the movements of capitalist production as a whole and setting them forth. In actual reality the capitals move and meet in such concrete forms that the form of the capital in the process of production and that of the capital in the process of circulation impress one only as special aspects of those concrete forms. The conformations of the capitals evolved in this third volume approach step by step that form which they assume on the surface of society, in their mutual interactions, in competition, and in the ordinary consciousness of the human agencies in this process.

I.I.2

The value of every commodity produced by capitalist methods is represented by the formula: C = c + v + s. If we subtract the surplus-value s from this value of the product, there remains only an equivalent for the value of the capital c + v expended for the elements used in the production of this commodity.

I.I.3

Take it that the production of a certain article requires the expenditure of a capital of 500 p.st., of which 20 p.st. are consumed by the wear and tear of instruments of production, 380 p.st. spent for materials of production, and 100 p.st. for labor-power. And let the rate of surplus-value be 100%. In that case the value of this product is equal to 400 c + 100 v + 100 s, or 600 p.st.

I.I.4

After deducting the surplus-value of 100 p.st., we have a remaining commodity-capital of 500 p.st., which is only an equivalent for the consumed capital of 500 p.st. This portion of the value of the commodity, which makes good the price of the consumed means of production and the price of the employed labor-power, replaces only the amount paid by the capitalist himself for this commodity and represents, therefore, from his point of view the cost price of this commodity.

I.I.5

However, the cost of this commodity to the capitalist, and the actual cost of this commodity, are two vastly different amounts. That portion of the value of the commodity which consists of surplus-value does not cost the capitalist anything for the reason that it costs the laborer unpaid labor. But on the basis of capitalist production, the laborer plays the role of an ingredient of productive capital as soon as he has been incorporated in the process of production. Under these circumstances the capitalist poses as the actual producer of the commodity. For this reason the cost price of the commodity to the capitalist necessarily appears to him as the actual cost of the commodity. If we designate the cost-price by k, we can transcribe the formula C = c + v + s into the formula C = k + s, that is to say, the value of a commodity is equal to the cost price plus the surplus-value.

I.I.6

In this way the classification of the various values making good the value of the capital consumed in the production of the commodity under the term of cost price expresses, on the one hand, the specific character of capitalist production. The capitalist cost of the commodity is measured by the expenditure of capital, while the actual cost of the commodity is measured by the expenditure of labor. The capitalist cost-price of the commodity, then, is a quantity different from its

value, or its actual cost-price. It is smaller than the value of the commodity. For since C = k + s, it is evident that k = C - s. On the other hand, the cost-price of a commodity is by no means a mere heading in capitalist bookkeeping. The actual existence of this portion of value continually exerts its practical influence in the actual production of the commodity, because it must be ever reconverted from its commodity-form, by way of the process of circulation, into the form of productive capital, so that the cost-price of the commodity must always buy anew the elements of production consumed in its creation.

I.I.7

However, the cost-price as a heading in bookkeeping has nothing to do with the formation of the value of a commodity, or with the process of self-expansion of capital. When I know that five-sixths of the value of a commodity worth 600 p.st., or 500 p.st., represent but an equivalent for the capital consumed in its production and suffice only for the purchase of new material elements of the same capital, I know nothing as yet of the way in which these five-sixths representing the cost-price of the commodity are produced, nor do I know anything about the production of the last sixth which constitutes its surplus-value. Nevertheless we shall see in the course of our analysis that the cost-price plays in capitalist economics the false role of a category in the actual production of values.

I.I.8

Let us return to our example. Take it that the value produced by one laborer in an average social working day is represented by 6 shillings in money. In that case the advanced capital of 500 p.st. consisting of 400 c + 100 v represents the values produced in 1666 2/3 working days of ten hours each. Of this amount 1333 1/3 working days are crystallized in the value of the means of production amounting to 400 p.st. (400 c), and 333 1/3 working days are crystallized in the value of labor-power amounting to 100 p.st. (100 v). Having assumed a rate of surplus-value of 100%, the production of the new commodity costs an expenditure of labor-power amounting to 100 v + 100 s, or 666 2/3 working days of ten hours each.
I.I.9

We know, then, as shown in volume I, chapter VII, that the value of the newly created product of 600 p.st. is composed, 1), of the reappearing value of the constant capital of 400 p.st. expended for means of production, and 2), of a newly produced value of 200 p.st. The cost-price of the commodity, or 500 p.st., comprises the reappearing 400 c and one-half of the newly produced value of 200 p.st., that is to say 100 v. In other words, it comprises two elements of the value of the commodity which are of widely different origin.
I.I.10

Owing to the appropriate character of the labor expended during 666 2/3 working days of ten hours each, the value of the means of production consumed in this process, to the amount of 400 p.st., is transferred to the product. This previously existing value thus reappears as an element of the value of the product, but is not created in the process of production of this commodity. It exists as an element of the value of this commodity only for the reason that it previously existed as an element of the invested capital. The expended constant capital, then, is replaced by that portion of the value of the commodity which this capital transfers to the commodity of its own accord in the labor-process. This element of the cost-price, therefore, has an ambiguous meaning. On the one hand it passes into the cost-price of the commodity, because it is an element of that portion of the value of the commodity which replaces consumed capital. And on the other hand it forms an element of the value of the commodity only for the reason that it is the value of consumed capital, or because the means of production cost a certain sum.
I.I.11

It is different with the other element of the cost-price. The 666 2/3 working days expended in the production of the commodity create a new value of 200 p.st. One portion of this new value replaces only the advanced variable capital of 100 p.st., which is the price of the labor-power employed. But this advanced capital-value does not participate in the creation of the new value. So far as the advance of

capital is concerned, labor-power counts as a value. But in the process of production, labor-power performs the function of creating value. The place of the mere value of labor-power in the advance of capital is taken in the actual process of productive capital by living labor-power which creates value.
I.I.12

This difference of the various elements of the value of a commodity which constitute the cost-price becomes evident whenever a change takes place either in the amount of the value of the expended constant capital or in that of the expended variable capital. For instance, let the price of the same means of production, or of the constant portion of capital, rise from 400 p.st. to 600 p.st., or fall to 200 p.st. In the first case it is not only the cost-price of the commodity which rises from 500 p.st. to 600 c + 100 v, or 700 p.st., but also the value of the commodity which rises from 600 p.st. to 600 c + 100 v + 100 s, or 800 p.st. In the second case, it is not only the cost-price which falls from 500 p.st. to 200 c + 100 v, or 300 p.st., but also the value of the commodity which falls from 600 p.st. to 200 c + 100 v + 100 s, or 400 p.st. Because the expended constant capital transfers its own value to the product, therefore the value of the product rises or falls with the absolute magnitude of that capital-value, other circumstances remaining the same. But on the other hand let us assume that, other circumstances remaining the same, the price of the same amount of labor-power rises from 100

p.st. to 150 p.st., or falls from 100 p.st. to 50 p.st. In the first case, the cost-price rises indeed from 500 p.st. to 400 c + 150 v, or 550 p.st., and in the second case it falls from 500 p.st. to 400 c + 50 v, or 450 p.st. But in either case, the value of the commodity remains unchanged at 600 p.st. In the first case it is 400 c + 150 v + 50 s, in the second 400 c + 50 v + 150 s, but in either case it is 600 p.st. The advanced variable capital does not transfer its own value to the product. The place of its value is taken in the product by a new value created by labor. Therefore a change in the value of the absolute magnitude of the variable capital, to the extent that it expresses merely a change in the price of labor-power, does not alter the absolute magnitude of the value of the commodity in the least, because it does not alter anything in the absolute magnitude of the new value created by living labor. Such a change influences only the relative proportion of the magnitudes of the two elements of the new value, one of which forms surplus-value, and the other of which makes good the variable capital and passes into the cost-price of the commodity.

I.I.13

The two elements of the cost-price, in the present case 400 c + 100 v, have only this in common that they are both of them elements of the value of the commodity replacing advanced capital.

I.I.14

But this actual condition of things must necessarily look reversed from the point of view of capitalist production.
I.I.15

The capitalist mode of production is distinguished from a mode of production based on slavery by this fact among others that in the former the value, or the price, as the case may be, of labor-power assumes the form of the value, or price, of labor itself, that is to say, the form of wages. (Volume I, chapter XIX.) The variable portion of the advanced capital, therefore, presents itself as a capital advanced in wages, as a capital-value paying for the value, or price, of all labor expended in production. Take it, for instance, that an average social working day of ten hours is represented by 6 shillings of money. In that case the advance of a variable capital of 100 p.st. expresses in money the value of a product created in 333 1/3 ten-hour days. But this value, being an element of the advance of capital for the purchase of labor-power, is not an element of the productive capital in the actual performance of its function. Its place in the process of production is taken by living labor-power. If the degree of exploitation of this labor-power is 100%, as it is in our illustration, then it is expended during 666 2/3 ten-hour days, and thereby adds to the product a new value of 200 p.st. On the other hand, the variable capital of 100 p.st. figures in the advance of capital as a capital invested in wages, or as the price of labor performed in 666 2/3 ten-hour days. Dividing 100 p.st. by 666 2/3, we obtain 3 shillings as the

price of a working day of ten hours, equal in value to the product of five hours' labor.

I.I.16

Now, if we compare the advance of capital on one side with the value of commodities on the other, we find the following condition of things:

I. Capital advanced 500 p.st., consisting of 400 p.st. of capital expended in means of production (price of means of production) plus 100 p.st. of capital expended in wages (price of 666 2/3 working days, or wages for the same).

II. Value of commodities 600 p.st. of which 500 p.st. represent the cost-price (400 p.st. price of expended means of production plus 100 p.st. price of expended 666 2/3 working days) plus 100 p.st. surplus-value.

I.I.17

In this formula, the portion of capital invested in labor-power differs from that invested in means of production (such as cotton or coal) only by serving for the payment of a substantially different element of production. But it does not differ by serving in a different function in the process of creating the value of the commodities, and thereby in the process of self-expansion of capital. The price of the means of production reappears in the cost-price of the commodities, just as it

figured in the advance of capital, and it does so for the reason that the means of production have been appropriately consumed. The cost-price of the commodities also contains the price, or wages, for the 666 2/3 working days consumed in the production of these commodities, which wages figured also in the advance of capital, likewise for the reason that this amount of labor has been appropriately expended. We see only finished and existing values, representing portions of the value of advanced capital which have passed into the value of the product, but no element representing newly created values. The distinction between constant and variable capital has disappeared. The entire cost-price of 500 p.st. now has the ambiguous meaning that it is that portion of the value of commodities worth 600 p.st. which makes good the capital of 500 p.st. expended in the production of these commodities, and that it owes its existence as a portion of the value of these commodities only to the fact of having previously existed as the cost-price of the consumed elements of production, namely means of production and labor, in other words, of having existed as an advance of capital. The capital-value reappears as the cost-price of commodities, because it had been expended as a capital-value.

I.I.18

The fact that the various elements of the value of the advanced capital have been expended for substantially different elements of production, namely for instruments of labor, raw materials, auxiliary

substances, and labor, requires only that the cost-price of the commodities should buy a new supply of these substantially different elements of production. So far as the formation of this cost-price is concerned, only one distinction is appreciable, namely that between fixed and circulating capital. In our example we had set down 20 p.st. for wear and tear of instruments of labor (400 c being composed of 20 p.st. for wear and tear of instruments of labor and 380 p.st. for materials of production). Supposing the value of those instruments of labor to have been 1200 p.st. before the productive process began, it will exist after the production of the commodities in two forms, one of them being represented by 20 p.st. of the value of the commodities, and the other by 1200‘20, or 1180 p.st., the remaining value of the instruments of labor in the possession of the capitalist, in other words, an element of his productive, not of his commodity-capital. On the other hand, the materials of production and wages, differ from the instruments of labor by being entirely consumed in the production of the commodities and transferring their entire value to that of the produced commodities. We have seen that the turn-over bestows upon these different elements of the advanced capital the forms of fixed and circulating capital.

I.I.19

The advance of capital, according to this, is 1680 p.st., consisting of 1200 p.st. of fixed capital plus 480 p.st. of circulating capital (380

p.st. of which are materials of production and 100 p.st. of which are wages).
I.I.20

But the cost-price of the commodities is only 500 p.st., namely 20 p.st. for the wear and tear of the fixed capital, and 480 p.st. for circulating capital.
I.I.21

This difference between the cost-price of the commodities and the advance of capital merely proves that the cost-price of the commodities is formed exclusively by the capital actually consumed in their production.
I.I.22

In the production of the commodities, instruments of production valued at 1200 p.st. are employed, but only 20 p.st. of this advanced capital are consumed in production. The employed fixed capital, then, passes only partially into the cost-price of commodities, because it is consumed only by degrees in their production. The employed circulating capital passes entirely into the cost-price of commodities, because it is entirely consumed in production. But what else does this prove than that the consumed portions of fixed and circulating capital, in the ratio of the magnitude of their values, pass uniformly into the cost-price of the commodities, and that this portion of the value of

commodities originates solely with the capital consumed in their production? If this were not the case, it would be inexplicable why the advanced fixed capital of 1200 p.st. should not add, aside from the 20 p.st. which it loses in the productive process, also the other 1180 p.st. which it does not lose therein.
I.I.23

This difference between fixed and circulating capital with reference to the calculation of the cost-price affirms, we repeat, the apparent origin of the cost-price in the expended capital-value, or in the price paid by the capitalist himself for the expended elements of production, including labor. On the other hand, the variable portion of capital invested in labor-power is explicitly identified, under the head of circulating capital, with that portion of the constant capital which consists of materials of production, so far as the formation of value is concerned. And by this means the mystification of the process of self-expansion of capital is accomplished.*1
I.I.24

Hitherto we have considered only one element of the value of commodities, namely the cost-price. We must now occupy ourselves also with the other element of the value of commodities, namely the excess over the cost-price, or the surplus-value. In the first place, then, surplus-value is an excess of the value of a commodity over its cost-price. But since the cost-price is equal to the value of the

consumed capital, into whose substantial elements it is continually reconverted, the additional value is an accretion to the capital expended in the production of the commodities and returning by way of the circulation.
I.I.25

We have seen previously that the surplus-value s owes its origin in point of fact to a change in the value of the variable capital v and is, therefore, really but an increment of variable capital. Nevertheless it is also an increment of the expended total capital c + v after the process of production has been completed. The formula c + (v + s), which indicates that s is produced by the conversion of a definite capital-value v, a constant magnitude, into a fluctuating magnitude by means of the labor-power paid by it, may also be represented as (c + v) + s. Before production began, we had a capital of 500 p.st. After production is completed, we have the same capital of 500 p.st. plus an increment of value amounting to 100 p.st.*2
I.I.26

However, the surplus-value is an increment, not only of that portion of the advanced capital which is assimilated by the process of production, but also of that portion which is not assimilated. In other words, it is an accretion, not only to the consumed capital which is made good by the cost-price of commodities, but also to the aggregate capital invested in production. Before the beginning of the production we had

a capital valued at 1680 p.st., namely 1200 p.st. of fixed capital invested in instruments of production, only 20 p.st. of which are assimilated in the process by the commodities through wear and tear, plus 480 p.st. of circulating capital invested in materials of production and wages. At the close of the process of production we have 1180 p.st. remaining of the value of the productive capital plus a commodity-capital of 600 p.st. By adding these two amounts, we find that the capitalist now has values amounting to 1780 p.st. After deducting his invested total capital of 1680 p.st., the capitalist pockets a surplus of 100 p.st. In short, the 100 p.st. of surplus-value form as much an increment of the invested 1680 p.st. as of the 500 p.st., or that part of it which was assimilated by the production.
I.I.27

The capitalist understands well enough that this increment of value has its genesis in the productive manipulations of capital, that it is generated out of the capital. For this increment exists at the close of the productive process, while it did not exist at its beginning. So far as the capital assimilated in production is concerned, the surplus-value seems to arise equally from all its different elements consisting of means of production and labor. For all these elements contribute equally to the formation of the cost-price. All of them add their values, which are advanced as capital, to the value of the product, and they are not distinguished as constant and variable magnitudes. This becomes obvious, when we assume for a moment that all

assimilated capital consisted either of wages exclusively, or of the values of means of production alone. In the first case, we should then have in place of the commodity-values 400 c + 100 v + 100 s the commodity-values 500 v + 100 s. The capital of 500, invested in wages, represents the value of all labor assimilated in the production of the commodity-value of 600 p.st., and therefore it constitutes the cost-price of this entire product. But the way in which this cost-price is formed, and in which the value of the expended capital is reproduced as a portion of the value of the product, is the only process in the formation of the value of this product known to us. We do not know anything of the way in which its surplus-portion of 100 p.st. is formed. It is the same in the second case, in which the value of the commodities would be equal to 500 c + 100 s. We know in either case that the surplus-value arises from a given value, because this value was advanced in the form of productive capital, no matter whether in the form of labor or of means of production. On the other hand, this advanced capital-value cannot form any surplus-value for the sole reason that it has been expended and constitutes the cost-price of the commodities. For the fact that it forms the cost-price of the commodities accounts precisely for the circumstance that it constitutes no surplus-value, but merely an equivalent replacing the expended capital. To the extent that it forms surplus-value it does so not in its specific capacity of expended, but of advanced and invested capital. In short, the surplus-value arises as much out of that portion of the advanced capital which makes good the cost-price of the

commodities as out of that portion which is not made up by the cost-price. In other words, it arises equally out of the fixed and circulating components of the invested capital. The total capital serves substantially as the creator of values, the instruments of labor as well as the materials of production and labor. The total capital passes substantially into the actual labor-process, even though only a portion of it is assimilated by the process of self-expansion. This is, perhaps, the very reason why it contributes only in part to the formation of the cost-price, but totally to the formation of the surplus-value. However that may be, the outcome is that surplus-value arises simultaneously from all portions of the invested capital. This deduction may be materially abbreviated, by saying pointedly and briefly in the words of Malthus: "The capitalist expects equal returns on all parts of the capital advanced by him."*3
I.I.28

In its alleged capacity of an offspring of the advanced total capital, the surplus-value assumes the change of form known as profit. Hence a certain value is capital when it is advanced with a view to generating profit,*4 or profit results from the investment of a value as capital. If we designate profit by p, we may convert the formula C = c + v + s, or k + s, into the formula C = k + p, in other words, the value of a commodity is equal to the cost-price plus the profit.
I.I.29

The profit, such as it presents itself here, is the same as the surplus-value, only it has a mystified form, which is a necessary outgrowth of capitalist modes of production. The genesis of the mutation of values must be transferred from the variable portion of capital to the total capital, because no distinction is noticeable between the constant and variable capital in the assumed formation of the cost-price. Because the price of labor-power assumes on one pole the form of wages, surplus-value appears at the other pole in the form of profit.
I.I.30

We have seen that the cost-price of a commodity is smaller than its value. Since C equals k + s, it follows that k equals C - s. The formula C = k + s reduces itself to C = k, or commodity-value equal to cost-price, only when s is zero, a case which never occurs on the basis of capitalist production, although peculiar market combinations may reduce the selling price of commodities to the level of their cost-price, or even below it.
I.I.31

Hence, if a commodity is sold at its value, a profit is realized, which is equal to the excess of its value over its cost-price, or equal to the entire surplus-value incorporated in the value of the commodity. But the capitalist may sell a commodity at a profit even when selling it below its value. For so long as its selling price exceeds its cost-price, even though it may be below its value, a portion of the surplus-value

incorporated in it is always realized and thus a profit made. The value of the commodities in our illustration is 600 p.st., their cost-price 500 p.st. If the commodities are sold at 510, 520, 530, 560 or 590, p.st., they are sold respectively at 90, 80, 70, 40, or 10 p.st. below their value, and yet a profit of respectively 10, 20, 30, 60, or 90 p.st. is realized by their sale. It is evident that selling prices may fluctuate considerably between the value of a commodity and its cost-price. The greater the surplus-element of the value of commodities, the greater is the practical playroom of these fluctuating intermediate prices.
I.I.32

This explains such phenomena of daily occurrence in competition as underselling, abnormally low prices in certain lines of industry, etc.*5 The fundamental law of capitalist competition, which political economy has not understood up to the present time, the law which regulates the general rate of profit and the prices of production determined by it, rests, as we shall see later, on this difference between the value and the cost-price of commodities, and on the resulting possibility to sell a commodity at a profit even below its value.
I.I.33

The minimum limit of the selling price of commodities is indicated by their cost-price. If they are sold below their cost-price, then the consumed elements of productive capital cannot be fully reproduced out of the selling price. If this sort of thing continues, then the value

of the advanced capital disappears. This point of view is sufficient to incline the capitalist toward the opinion that the cost-price is essentially the inmost value of commodities, because it is the price required for the bare conservation of his capital. Furthermore, the cost-price of a commodity is the purchase price paid by the capitalist himself for its production, in other words, the purchase price determined by the process of production itself. For this reason, the surplus-value realized by the sale of a certain commodity appears to the capitalist as an excess of its selling price over its value, instead of an excess of its value over its cost-price, so that accordingly the surplus-value incorporated in a commodity is not realized by its sale, but arises out of the sale itself. We have thrown more light on this illusion in volume I, chapter V, under the head of "Contradictions in the General Formula of Capital." We merely revert at this point to that form in which it was reaffirmed by Torrens, among others, as an advance of political economy beyond Ricardo.

"The natural price consisting of the cost of production, or in other words, of the expenditure of capital in the production or manufacture of a commodity, cannot possibly include any profit....If a farmer advances 100 quarters of corn in the cultivation of his fields, and receives in return 120 quarters, the 20 quarters, being a surplus of the product above the investment, form his profit; but it would be absurd to call this surplus, or profit, a part of his expenditure....The manufacturer advances a certain quantity of raw materials, tools, and

subsistence for labor, and receives in return a quantity of finished products. This finished product must contain a greater exchange-value than the raw materials, tools, and means of subsistence, by whose advance it was acquired." Torrens concludes, therefore, that the excess of the selling price over the cost-price, or the profit, is due to the fact that the consumers, "by a direct or circuitous exchange yield a certain larger portion of all ingredients of capital than it cost to produce them."*6

I.I.34

In fact, the excess over a certain magnitude cannot form a part of this magnitude. Therefore the profit, the excess of the value of a commodity over the expenditure of the capitalist, cannot form a part of this expenditure. Hence, if no other element than the advance of the capitalist enters into the formation of the value of a commodity, it is inexplicable that more value should come out of production than went into it, for something cannot come out of nothing. Torrens, however, dodges this creation out of nothing only by transferring it from the sphere of commodity-production to that of commodity-circulation. Profit cannot come out of the production of commodities, says Torrens, for otherwise it would already be contained in the cost of production, and that would not be a surplus over this cost. Profit cannot come out of the exchanges of commodities, replies Ramsay, unless it existed before this exchange. The sum of their values of the

exchanged products is evidently not altered by their exchange. It remains the same as before this exchange. Incidentally we remark at this point, that Malthus invokes expressly the authority of Torrens,*7 although he himself explains the sale of commodities above their value differently, or rather does not explain it, since all arguments of this sort ultimately amount to the same thing as the one-time famous negative weight of phlogiston.
I.I.35

In a society ruled by capitalist production, even the non-capitalist producer is dominated by capitalist conceptions. In his last novel, Les Paysans, Balzac, who is generally remarkable for his profound grasp of actual conditions, aptly describes how the little peasant, in order to retain the good will of his usurer, performs many small tasks gratuitously for him and fancies that he does not give him anything for nothing, because his own labor does not cost him any cash outlay. The usurer, on the other hand, thereby kills two flies at one stroke. He saves a cash outlay for wages and gets the farmer more and more tangled in the net of the spider of usury, by gradually ruining him through the deviation of his labor from his own fields.
I.I.36

The thoughtless conception that the cost-price of a commodity constitutes its actual value, and that surplus-value arises by selling the product above its value, so that commodities would be sold at their

value, if their selling price were equal to their cost-price, that is to say, equal to the price of the means of production plus wages incorporated in them, has been heralded to the world as a newly discovered secret of socialism by Proudhon with his customary charlatanry in the guise of science. In fact, this reduction of the value of commodities to their cost-price constitutes the basis of his People's Bank. We have demonstrated in a preceding chapter that the various elements of the value of the product may be materialized in proportional parts of the product itself. (Volume I, chapter IX, 2.) For instance, if the value of 20 lbs. of yarn is 30 shillings, containing 24 shillings of means of production, 3 shillings of labor-power, and 3 shillings of surplus-value, then this surplus-value may be represented by 1/10 of the product, or 2 lbs. of yarn. Now, if these 20 lbs. of yarn are sold at their cost-price, at 27 shillings, then the purchaser receives 2 lbs. of yarn for nothing, or the article is sold 1/10 below its value. But the laborer has performed the same amount of surplus-labor, only in this case it accrues to the benefit of the purchaser of the yarn, not to its capitalist producer. It would be a mistake to assume that if all commodities were sold at their cost-price the result would be the same as if they had all been sold above their cost-price, at their real value. For even if the value of labor-power, the length of the working day, and the degree of exploitation of labor were the same everywhere, the quantities of surplus-value contained in the values of the various kinds of commodities would be unequal,

according to the different organic composition of the capitals advanced for their production.*8

Notes for this chapter

1.
In volume I, chapter IX, 3, we have shown by the example of N. W. Senior what confusion this may create in the head of the economist.
2.
"From what has gone before, we know that surplus-value is purely the result of a variation in the value of v, of that portion of the capital which is transformed into labor-power; consequently, v + s equals v + v', or v plus an increment of v. But the fact that it is v alone that varies, and the conditions of that variation, are obscured by the circumstance that in consequence of the increase of the variable component of the capital there is also an increase in the sum total of the advanced capital. It was originally 500 p.st. and becomes 590 p.st." (Volume I, chapter IX, 1.)
3.
Malthus, Principles of Political Economy, second edition, London, 1836, pages 267, 268.
4.
"Capital: that which is expended with a view to profit." Malthus, Definitions in Political Economy. London, 1827, page 86.
5.

Compare volume I, chapter XVII, I.

6.

R. Torrens, An Essay on the Production of Wealth. London, 1821, pages 51-53, and 70-71.

7.

Malthus, Definitions in Political Economy. London, 1853, pages 70, 71.

8.

"The masses of value and surplus-value produced by different capitals‘ the value of labor-power being given and its degree of exploitation being equal‘vary directly as the amounts of the variable constituents of these capitals, i.e., as their constituents transformed into living labor-power." (Volume I, Chapter IX.)

Part I,

Volume III Chapter II THE RATE OF PROFIT.

I.II.1

THE general formula of capital is M‘C‘M'. In other words, a certain quantity of values is thrown into circulation for the purpose of drawing a larger quantity out of it. The process by which this larger quantity is produced is capitalist production. The process by which this larger quantity is realized is the circulation of capital. The capitalist does not produce a commodity on its own account, he does not care for its

use-value, nor does he consume it personally. The product in which the capitalist is really interested is not the tangible product itself, but the excess of the value of the product over the value of the capital assimilated by it. The capitalist advances the total capital without regard to the different roles played by its components in the production of surplus-value. He advances all these components uniformly, not merely for the purpose of reproducing the advanced capital, but rather with a view to producing a surplus-value in excess of it. He cannot convert the value of the variable capital advanced by him into a greater value except by its exchange for living labor and by the exploitation of this labor. But he cannot exploit this labor unless he advances at the same time the material requirements for the incorporation of this labor, namely instruments and materials of labor, machinery and raw materials. This he can do only by converting a certain amount of value in his possession into requirements of production. He could not be a capitalist at all, nor undertake to exploit labor, unless he enjoyed the privilege of owning the material requirements of production and finding at hand a laborer who owns nothing but his labor-power. We have already shown in the first volume that it is precisely the ownership of means of production by idlers which converts laborers into wage-workers and idlers into capitalists.

I.II.2

It is immaterial for the capitalist whether he is supposed to advance constant capital in order to make a profit out of his variable capital, or whether he advances variable capital in order to make a profit out of the constant capital; whether he invests money in wages in order to make his machinery and raw materials more valuable, or whether he invests money in machinery and raw materials in order to be able to exploit labor. Although it is only the variable portion of capital which creates surplus-value, it does so only on condition that the other portions, the material requirements of production, are likewise advanced. Seeing that the capitalist can exploit labor only by advancing constant capital, and that he can utilize his constant capital only by advancing variable capital, he lumps them all together in his imagination, and he is all the more apt to do so as the actual rate of his gain is not calculated on its proportion to the variable, but on its proportion to the total capital, in other words, that it is calculated on the rate of profit, not on the rate of surplus-value. And we shall see that the rate of profit may remain unchanged and yet may express different rates of surplus-value.
I.II.3

The cost of the product includes all those elements of its value which the capitalist has paid, or for which he has thrown an equivalent into circulation. This cost must be made good in order that the capital may merely be preserved, or reproduced in its original magnitude.
I.II.4

The value contained in a certain commodity is equal to the labor-time required for its production, and the sum of this labor consists of paid and unpaid portions. But the expenses of the capitalist consist only of that portion of materialized labor which he paid for the production of the commodity. The surplus-value contained in this commodity does not cost the capitalist anything, while it cost the laborer his labor just as well as that portion for which he is paid, and although it creates value and is embodied in the value of the commodity quite as well as the paid labor. The profit of the capitalist is due to the fact that he offers something for sale for which he has not paid anything. The surplus-value, or the profit, consists precisely of the excess of the value of the commodity over its cost-price, in other words, it consists of the excess of the total amount of labor embodied in the commodity over the paid labor contained in it. The surplus-value, whatever be its genesis, is a surplus above the advanced total capital. The proportion of this surplus to the total capital is expressed by the fraction s/C, in which C stands for the total capital. Thus we obtain the rate of profit s/C = s/(c+v), as distinguished from the rate of surplus-value s/V. I.II.5

The rate of surplus-value measured by the variable capital is called rate of surplus-value. The rate of surplus-value measured by the total capital is called rate of profit. These two modes of measuring the same magnitude express different conditions or relations of this

magnitude, owing to the difference of the two standards of measurement.
I.II.6

The transformation of surplus-value into profit must be deduced from the transformation of the rate of surplus-value into the rate of profit, not vice versa. And the rate of profit is indeed that from which historical research takes its departure. The surplus-value and the rate of surplus-value are, relatively, the invisible and unknown essence, while the rate of profit and the resulting appearance of surplus-value in the form of profit are phenomena which show themselves on the surface.
I.II.7

So far as the individual capitalist is concerned, it is evident that the only thing which interests him is the relation of surplus-value, of the excess of value at which he sells his articles, to the total capital advanced for the production of commodities. On the other hand, the definite relation of this surplus, and its internal connection, with the various components of capital does not interest him, for it is rather to his interest to indulge in vague notions relative to this definite relation and this internal connection.
I.II.8

Although the excess in the value of a commodity over its cost-price is created in the process of production, strictly so called, it is realized in the process of circulation. And it assumes so much more easily the semblance of arising from the process of circulation, as it depends in reality on the market conditions under competition whether any surplus is realized or not, or how much of it. It is not necessary to lose any words at this point about the fact that it is merely a different way of dividing the surplus-value, when a commodity is sold above or below its value, and that this different division, this change of proportions in which different persons share in the surplus-value, does not alter in the least the magnitude or the nature of that value. It is not alone the metamorphoses discussed by us in volume II which take place in the process of circulation, but they are accompanied by actual competition, the sale and purchase of commodities above or below their value, so that the surplus-value realized by the individual capitalist depends as much on the outcome of the mutual endeavor to outwit one another as on the direct exploitation of labor.
I.II.9

Aside from the working time, the time of circulation exerts its influence in the process of circulation and limits the amount of surplus-value realizable within a certain period. Still other elements arise in the process of circulation and influence the strict process of production. Both the strict process of production and the process of circulation continually intermingle, interpenetrate one another, and

thereby incessantly falsify their characteristic marks of distinction. The production of surplus-value, and of value in general, receives new directions in the process of circulation, as we have previously shown. Capital passes through the cycle of its metamorphoses. Finally it steps, so to say, forth out of the internal organism of its life and enters into external conditions of existence, into conditions in which the opposites are not capital and labor, but capital and capital in one case, and individual buyers and sellers in another. The time of circulation and the working time cross one another's paths and seem to determine equally the amount of surplus-value. The original form in which capital and wage-labor meet one another is disguised by the interference of conditions which seem to be independent of them. The surplus-value itself does not appear to be the result of the appropriation of labor-time, but an excess of the selling price of commodities over their cost-price, so that this last named price is easily regarded as their intrinsic value, while profit appears as an excess of the selling price of commodities over their immanent value.
I.II.10

It is true, that the nature of the surplus-value impresses itself incessantly upon the consciousness of the capitalist during the process of production. This is shown, among other indications, by his greed for the labor-time of others, to which we called attention in the analysis of surplus-value. But in the first place, the strict process of production is but a fleeting stage passing continually into the process

of circulation, just as this does into it, so that the more or less vague inkling of the source of the gains made in the process of production, the source of the surplus-value, stands at best on the same ground with the idea that the realized surplus is due to a movement of capital in the process of circulation and independent of the process of production, a movement of capital independent of its relation to labor. These phenomena of circulation are quoted by modern economists like Ramsay, Malthus, Senior, Torrens, etc., as direct proofs of the alleged fact that capital, in its mere material existence, independent of any social relation to labor which makes capital of it, may be a source of surplus-value quite as well as labor itself and without its help. In the second place, under the head of expenses, among which wages are classed the same as the price of raw materials, wear and tear of machinery, etc., the appropriation of unpaid labor figures only as a saving in the payment of an article added to the expense, only as a smaller payment for a certain quantity of labor. A saving is recorded in the same way, whenever raw materials are bought more cheaply, or the wear and tear of machinery decreases. In this way the appropriation of surplus-labor loses its specific character. Its characteristic relation to the surplus-value is obscured. And this is greatly facilitated, as shown in volume I, part VI, by the representation of the value of labor-power in the form of wages. I.II.11

By posing equally as sources of an excess of value (profit), all elements of capital mystify the nature of the capitalist relation.
I.II.12

The way in which surplus-value is transformed into profit via the rate of profit is but a continued development of the perversion of subject and object taking place in the process of production. We have already seen that all subjective forces of labor in that process appeared as productive forces of capital. On the one hand, the value of past labor, which dominates living labor, is incarnated in the capitalist. On the other hand the laborer appears as materialized labor-power, as a commodity. This perverted relationship necessarily produces even under simple conditions of production certain correspondingly perverted conceptions, which represent a transposition in consciousness, that is further developed by the transformations and modifications of the circulation process proper.
I.II.13

We can see by the example of the Ricardian school that it is a mistake to attempt a development of the laws of the rate of profit directly out of the laws of the rate of surplus-value, or vice versa. In the head of the capitalist they are naturally not distinguished. In the formula s/C the surplus-value is measured by the value of the total capital advanced for its production and partly consumed in it, partly merely invested in it. Indeed, the formula s/C expresses the degree

of self-expansion of the total capital advanced, or, to state it in conformity with the conception of the internal organic connection and nature of surplus-value, it indicates the proportion of the variation of the variable capital to the magnitude of the advanced total capital. I.II.14

The magnitude of the value of the total capital has no direct internal relation to the magnitude of the surplus-value. So far as its material elements are concerned, the total minus the variable capital, in other words, the constant capital, consists of the material ingredients, the instruments and materials of production, required for the materialization of labor. In order that a certain quantity of labor may be incorporated in commodities and thereby produce value, a certain quantity of instruments and materials of production is required. According to the peculiar character of the incorporated labor, a definite technical relation is established between the quantity of labor and the quantity of means of production in which this labor is to be incorporated. To that extent there is also a definite relation between the quantity of surplus-value, or surplus-labor, and the quantity of means of production. For instance, if the necessary labor for the production of wages amounts to 6 hours daily, then the laborer must work 12 hours in order to perform 6 hours of surplus-labor, or produces a surplus-value of 100%. He uses up twice as many means of production in 12 hours as he does in 6. But nevertheless the surplus-value incorporated by him in 6 hours is not directly related to

the value of the means of production used up in those 6, or in those 12 hours. This value is here immaterial. It is only the technically required mass which is important. It does not matter whether the raw materials or instruments of labor are cheap or dear, so long as they have the required use-value and are available in quantities proportioned to the technical demands of the labor to be incorporated in them. Now, if I know that x lbs. of cotton are consumed by one hour's spinning and cost a shillings, then I also know that 12 hours' spinning will consume 12 x lbs. of cotton costing 12 a shillings. And in that case I can calculate the proportion of the surplus-value to the value of the 12 as well as to that of the 6. But the relation of the living labor to the value of the means of production enters here only to the extent that a shillings serve as a name for x lbs. of cotton. For a definite quantity of cotton has a definite price, and therefore a definite price may also serve as an index to a definite quantity of cotton, so long as the price of cotton is not changed. If I know that I must let the laborer work for 12 hours, in order to appropriate for my own 6 hours of surplus-labor, and if I know the price of this quantity of cotton needed for 12 hours, then I have a circuitous means of determining the proportion between the price of cotton (as an index of the required quantity) and the surplus-value. But on the other hand, I can never make any conclusions from the price of the raw material as to the quantity that may be consumed by one hour's spinning, but not by 6 hours'. There is, then, no necessary internal

connection between the value of the constant capital, nor the value of the total capital c + v, and the surplus-value.
I.II.15

If the rate of surplus-value is known and its magnitude given, then the rate of profit expresses nothing else but what it actually is, namely a different way of measuring surplus-value, this being measured by the value of the total capital, instead of the value of that portion of capital from which surplus-value directly originates by way of an exchange with labor. But in reality, in the world of phenomena, the conditions are reversed. Surplus-value is given, but only as an excess of the selling price of commodities over their cost-price. And it remains a mystery where this surplus is originated, whether it is due to the exploitation of labor in the process of production, or to overcharging the purchaser in the process of circulation, or to both. There is also given the proportion of the surplus-value to the value of the total capital, or the rate of profit. The calculation of this excess of the selling price over the cost-price of commodities on the value of the advanced total capital is very important and natural, because by its means the ratio is actually determined in which the total capital has been expanded, the ratio of its self-expansion. If the rate of profit is made the point of departure, there is no basis on which to make any conclusions regarding the specific relations between the surplus and the variable capital invested in wages. We shall see in a subsequent chapter what funny

somersaults Malthus made in trying to get in this way at the secret of the surplus-value and of its specific relation to the variable capital. What the rate of profit actually shows is a uniform relation of the surplus to equal portions of the total capital, which from this point of view does not show any internal differences at all, unless it be that between fixed and circulating capital. And this difference is shown only because the surplus is calculated in two ways. In the first place it is calculated as a simple magnitude, as an excess of the selling price over the cost-price. In this form, the entire circulating capital enters into the cost-price, while of the fixed capital only the wear and tear enters into it. In the second place, the relation of this excess in value to the total value of the advanced capital is calculated. In this case, the value of the fixed capital is taken into the calculation entirely, the same as that of the circulating capital. In other words, the circulating capital enters both times in the same way, while the fixed capital enters the first time in a different, the second time in the same way as the circulating capital. Under these circumstances, the difference between the fixed and circulating capital is the only one which obtrudes itself.
I.II.16

The excess in value, then, if determined by the rate of profit, appears as a surplus generated annually, or during a definite period of circulation, by the total capital above its own value.
I.II.17

While the rate of profit differs numerically from the rate of surplus-value, the profit and the surplus-value are actually the same thing and numerically equal. However, the profit is a transformed kind of surplus-value, a form in which its origin and the secret of its nature are obscured and extinguished. Profit is, therefore, that disguise of surplus-value which must be removed before the real nature of surplus-value can be discovered. In the surplus-value, the relation between capital and labor is laid bare. But in the relation of capital and profit, that is to say, the relation between capital and that form of surplus-value which appears on one hand as an excess over the cost-price of commodities realized in the process of circulation, and on the other hand as a surplus determined by its relation to the total capital, the capital appears as a relation to itself, a relation in which it, as the original amount of value, is distinguished from a new value generated by itself. It is dimly recognized, that capital generates this new value by its movement in the processes of production and circulation. But the way in which this is done is surrounded by mystery, and thus surplus-value seems to be due to hidden qualities inherent in capital itself.
I.II.18

To the extent that we follow up the process of self-expansion of capital, the nature of the relation of surplus-value to capital becomes

more and more mystified, and it becomes increasingly difficult to discover the secret of its internal organism.
I.II.19

In this first part, we shall consider the rate of profit as numerically different from the rate of surplus-value, while profit and surplus-value will be treated as the same numerical magnitude having only a different form. In the second part we shall see that the transformation continues and that profit presents itself as a magnitude differing also numerically from surplus-value.

Part I,

Volume III Chapter III THE RELATION OF THE RATE OF PROFIT TO THE RATE OF SURPLUS-VALUE.

I.III.1

WE have stated at the conclusion of the preceding chapter, and repeat it here, that we consider in this entire first part the amount of profit made by a certain capital to be equal to the full amount of surplus-value produced by means of this capital during a certain period of circulation. In other words, we leave aside for the present the fact that this surplus-value is split up into various secondary forms, such as interest on capital, ground-rent, taxes, etc., and that

surplus-value is not identical, as a rule, with profit as appropriated on the basis of an average rate of profit, which will be discussed in part II.

I.III.2

So far as the quantity of profit is assumed to be equal to that of surplus-value, its magnitude, and that of the rate of profit, is determined by the relations of simple numerical magnitudes given or ascertainable in every individual case. The analysis, therefore, is first carried on purely on the field of mathematics.

I.III.3

We retain the terms used in volumes I and II. The total capital C consists of constant capital c and variable capital v, and produces a surplus-value s. The ratio of this surplus-value to the advanced variable capital, or s/v, is called the rate of surplus-value and designated by s'. Therefore s/v = s', and s = s'v. If this surplus-value is calculated on the total capital instead of the variable capital, it is called profit, p, and the ratio of the surplus-value s to the total capital C, or s/C, is called the rate of profit, p'. Accordingly, p' = s/C = s/(c+v). Now, substituting for s its equivalent s'v, we find p' = S'v/C = S'v/(c+v). And this equation may be expressed by the proportion p' : s' = v : C, or in words, the rate of profit is proportioned to the rate of surplus-value as the variable capital is to the total capital.

I.III.4

This proportion shows that the rate of profit, p', is always smaller than the rate of surplus-value, s', because the variable capital, v, is always smaller than the total capital, C, which is the sum of v + c, the variable plus the constant capital. The only exception to this rule is the practically impossible case, in which v = C, that is to say, in which no constant capital, no means of production, are advanced by the capitalist, but only wages.
I.III.5

However, our analysis must take into account a few other elements, which have a determining influence on the magnitude of c, v, and s. We shall mention them briefly.
I.III.6

There is, first, the value of money. We may assume this to be constant, throughout our analysis.
I.III.7

In the second place, there is the turn-over. We leave this element entirely out of consideration for the present, since its influence on the rate of profit will be treated later on in a special chapter. [We anticipate here only one point, namely that the formula p' = s' v/ C is strictly correct only for one period of turn-over of the variable capital. But we may make it correct for an annual turn-over by substituting

for s', the simple rate of surplus-value, the factor s'n, meaning the annual rate of surplus-value. The factor n in this term expresses the number of turn-overs of the variable capital during one year. (See chapter XVI, I, volume II.)‘F. E.]

I.III.8

In the third place, the productivity of labor must be considered. Its influence on the rate of surplus-value has been thoroughly discussed in volume I, part V. The productivity of labor may also exert a direct influence on the rate of profit, at least of an individual capital. It has been demonstrated in volume I, chapter XII, that an individual capital may realize an extra profit, if it operates with a greater productivity than that of the social average and thereby produces its commodities at a lower value than the social average value of the same commodities. However, this case will not be considered for the present, since our premise in this part of the work is that the commodities are produced under normal social conditions and sold at their values. Hence we assume in each case that the productivity of labor remains constant. Under these circumstances the composition of the values of any capital invested in any line of industry, in other words, the proportion between the variable and constant capital, expresses a definite degree in the productivity of labor. As soon as this proportion is altered by other means than a mere change in the value of the material elements of the constant capital, or a change in the value of wages, it follows that the productivity of labor must

likewise undergo a corresponding change. We shall see frequently, for this reason, that alterations affecting the factors c, v, and s imply also changes in the productivity of labor.
I.III.9

The same applies to the three remaining factors. namely the length of the working day, the intensity of labor, and the wages. Their influence on the mass and rate of surplus-value has been discussed in detail in volume I. It will be understood, therefore, that notwithstanding our assumption that these three factors remain constant there may be changes in v and s which may imply changes in the magnitude of these determining elements. In this respect we have but to remember that wages influence the quantity of surplus-value and the degree of the rate of surplus-value inversely from the length of the working day and the intensity of labor; that an increase of wages reduces the surplus-value, while a prolongation of the working day and an increase in the intensity of labor add to it.
I.III.10

Take it that a capital of 100 produces with 20 laborers by a working day of 10 hours and a total weekly wage of 20 a surplus-value of 20. Then we have 80 c + 20 v + 20 s, which implies that s' equal 100% and p' 20%.
I.III.11

Now let the working day be prolonged to 15 hours without an increase of wages. The total value produced by the 20 laborers is thereby increased from 40 to 60, since 10 : 15 = 40: 60. Seeing that v, the wages paid to the laborers, remains the same, the surplus-value rises from 20 to 40, and we have 80 c + 20 v + 40 s, implying that s' equals 200% and p' 40%. If, on the other hand, the working day remains unchanged at 10 hours, while wages fall from 20 to 12, the total value produced amounts to 40, but it is differently distributed. For v falls to 12, leaving a remainder of 28 for s. Then we have 80 c + 12 v + 28 s, whereby s' is raised to 233 1/3%, while the rate of profit, p', is as 28 to 92, or 30 10/23%.
I.III.12

We see, then, that both a prolongation of the working day (or a corresponding increase in the intensity of labor) and a fall in wages increase the mass, and thus the rate, of surplus-value. On the other hand, a rise in wages, other circumstances remaining the same, would lower the rate of surplus-value. Hence, if v rises through an increase of wages, it does not mean a greater, but only a dearer quantity of labor, and in that case s' and p' do not rise, but fall.
I.III.13

This indicates that a change in the working day, in the intensity of labor, and in wages cannot take place without at the same time altering v and s and their proportion, and therefore also p', which

expresses the proportion of s to the total capital c + v. And it is also evident that a change in the proportion of s to v implies a corresponding change in at least one of the three determining elements of labor.
I.III.14

It is precisely this fact which reveals the specific organic relationship of variable capital to the movement of the total capital and its self-expansion, and also its difference from the constant capital. So far as it is a question of the generation of value, the constant capital is significant only for its value. It is immaterial for this question, whether a constant capital of, say, 1,500 p.st. represents 1,500 tons of iron at 1 p.st. each, or 500 tons of iron at 3 p.st. each. The quantity of the actual material, in which the value of the constant capital is incorporated, is immaterial for the question of the formation of value and the rate of profit. This rate varies inversely to the value of the constant capital, no matter what may be the proportion of the increase or decrease of the value of constant capital to the mass of its material elements.
I.III.15

It is different with the variable capital. Not its own value, not the labor incorporated in this capital, are of prime importance, but the fact that its own value implies the setting in motion of a grand total of labor whose quantity it does not express. This grand total of labor

differs from the labor expressed in the value of the variable capital and paid by it in that it contains a certain amount of surplus-labor, which is so much greater, the smaller the value of the labor contained in the variable capital. Take it that a working day of 10 hours is equal to 10 shillings. If the necessary labor, which pays for the wages, or makes good the variable capital, is worth 5 shillings, then the surplus-labor amounts to 5 hours, or the surplus-value to 5 shillings. If the necessary labor amounts to 4 hours and is worth 4 shillings, then the surplus-labor is 6 hours and the surplus-value 6 shillings.
I.III.16

Hence, as soon as the value of the variable capital ceases to be an index of the amount of labor actually set in motion by it, as soon as the measure of this index is altered, the rate of surplus-value will vary inversely and at an inverse ratio.
I.III.17

Now let us pass on and apply the previously found equation of the rate of profit, $p' = s' \, v/C$, to the various cases possible. We shall change the value of the individual factors of $s' \, v/C$ one after another and ascertain the effect of these changes on the rate of profit. In this way we obtain a number of different cases, which we may regard either as successively altered determinants of one and the same capital, or as different capitals existing side by side and compared

with one another, no matter whether they exist in different lines of industry or different countries. In cases where the conception of some of our examples as successive conditions of the same capitals seems forced or impracticable, this objection is set aside by regarding them as illustrations of independent capitals.
I.III.18

We now separate the product s' v/ C into its two factors s' and v/ C. In the first place, we treat s' as a constant factor and analyze the effects of the possible variations of v/ C. After that we treat the fraction v/ C as constant and let s' go through its possible variations. Finally we treat all factors as variable magnitudes and thereby exhaust all cases from which rules concerning the rate of profit may be derived.

I. s' constant, v/ C variable.

I.III.19

We make a general formula for this case, which comprises a number of sub-cases. Take two capitals C and C1, with their respective variable proportions v and v1, with equal rates of surplus-value s', and the rates of profit p' and p1'. Then p' = s' v/ C and p1' = s' v1/ C1.
I.III.20

Now let us make a proportion of C and C1, and v and v1, for instance let the value of the fraction C1/ C = E, and that of v1/ v = e. Then C1 = EC, and v1 = ev. Substituting in the above equation these values for p1', C1 and v1, we obtain P1' = s' ev/ EC. Again, we may deduct a second formula from the above two equations, by transforming them into the equation p' : p1' = s' v/ C: S' v1/ C1 = v/ C : v1/ C1. Since the value of a fraction remains the same, if we multiply or divide its numerator or denominator by the same number, we may reduce v/ C and v1/ C1, to percentages, that is to say we may make both C and C1 equal to 100. Then we have v/ C = v/ 100 and v1/ C1 = v1/ 100. We may then drop the denominators in the above proportion and say that p' : p1' = v : v1. In other words, with any two capitals operating with the same rate of surplus-value the rates of profit are proportioned to one another as the variable capitals are to one another, calculated in percentages on their respective total capitals.
I.III.21

These two formulæ comprise all cases of variation of v/ C.
I.III.22

Before we analyze these various cases, we make another remark. Since C is the sum of c plus v, of the constant and variable capital, and since the rates of surplus-value and of profit are generally expressed in percentages, it is convenient to assume that the sum of

c plus v is also equal to 100, that is to say, to express c and v in percentages. It is immaterial for the determination, not of the mass, but of the rate of profit, whether we say that a capital of 15,000, composed of 12,000 of constant and 3,000 of variable capital, produces a surplus-value of 3,000, or whether we reduce this capital to percentages. So we may say that 15,000 C = 12,000 c + 3,000 v + (3,000 s), or that 100 C = 80 c + 20 v + (20 s). In either case the rate of surplus-value, s', equals 100% and the rate of profit, p', 20%.
I.III.23

The same is true in the comparison of two capitals. For instance, if we compare the foregoing capital with another, such as 12,000 C = 10,800 c + 1,200 v + (1,200 s), or 100 C = 90 c + 10 v + (10 s). In the last case, s' is 100% and p', 10%. And its comparison with the foregoing capital is easier by percentages.
I.III.24

On the other hand, if it is a question of changes taking place in the same capital, the expression by percentages is rarely convenient, because these peculiar alterations are almost always obliterated thereby. If a capital, expressed in percentages of 80 c + 20 v + 20 s assumes the percentages of 90 c + 10 v + 10 s, we cannot tell whether the change in the composition of percentages is due to an absolute decrease of v or an absolute increase of c, or to both. In

order to ascertain this, we must have the absolute magnitudes in figures. But in the analysis of the following individual cases, everything depends on the question of the way in which the variations have been accomplished. Has 80 c + 20 v been changed into 90 c + 10 v by an increase of the constant capital without any change in the variable capital, for instance by changing 12,000 c + 3,000 v into 27,000 c + 3,000 v? Or has the same result been accomplished by leaving the constant capital untouched and reducing the variable capital, for instance by changing the above capital into 12,000 c + 1,333 1/3; v (corresponding to a percentage of 90 c + 10 v)? Or have both of the original capitals been changed into 13,500 c + 1,500 v (corresponding once more to percentages of 90 c + 10 v)? It is precisely these cases which we shall have to analyze, and in so doing we must dispense with percentages, or at least employ them only in a minor degree.

1. s' and C constant, v variable.

I.III.25

If v changes its magnitude, then C can remain unaltered only by a change in the opposite direction of c, the other component of C. If C consists originally of 80 c + 20 v, and if v is reduced to 10, then C can remain 100 only by an increase of c to 90; for 90 c + 10 v = 100. Generally speaking, if v is transformed into v ± d, into v

increased or decreased by d, then c must be transformed into c + d, into c decreased or increased by the same amount, into c varying in the opposite direction from v, in order that the conditions of the present case be fulfilled.
I.III.26

Again, if the rate of surplus-value, s', remains the same, while the variable capital, v, changes, then the mass of surplus-value must change, since s = s'v, and since one of the factors of s'v, namely v, is invested with a different value.
I.III.27

The assumptions of the present case produce, aside from the original equation p' = s' v/ C, still another equation by the variation of v, namely p1' = s' v1/ C, in which v has become v1 and p1', the corresponding rate of profit, is to be sought.
I.III.28

It is found by the corresponding proportion:

p' : p1' = s' v/ C : s' v1/ C = v : v1.

That is to say, if the rate of surplus-value and the total capital remain the same, then the original rate of profit is proportioned to the new

rate of profit produced by a change in the variable capital as the original variable capital is to the changed variable capital.
I.III.29

If the original capital was I) 15,000 C = 12,000 c + 3,000 v + (3,000 s), and if it is now II) 15,000 C = 13,000 c + 2,000 v + (2,000 s), then C is 15,000 and the rate of surplus-value 100% in either case, and the rate of profit of I), 20%, is proportioned to that of II), 13 1/3%, as the variable capital of I), 3,000, is to the variable capital of II), 2,000, that is to say 20% : 13 1/3% = 3,000 : 2,000.
I.III.30

Now, the variable capital may either increase or decrease. Take first an example in which it increases. Let a certain capital be constituted and operated as follows: I) 100 c + 20 v + 10 s. Then C equals 120, s' equals 50%, and p' equals 8 1/3%. Now let the variable capital increase to 30. In that case the constant capital must fall to 90, according to our assumption, which requires that the total should remain unchanged at 120. The amount of surplus-value produced will then rise from 10 to 15, the rate of surplus-value remaining constant at 50%. Our capital then is constituted as follows:

II) 90 c + 30 v + 15 s. C equals 120, s' equals 50%, and p', 12½%.
I.III.31

Now let us start out with the assumption that the wages remain unchanged. Then the other factors of the rate of surplus-value, namely the working day and the intensity of labor, must also be unchanged. Therefore the increase of v from 20 to 30 can signify only that more laborers are employed. In that case the total product in values also increases by one-half, from 30 to 45, and is distributed, the same as before, to 2/3 for wages and 1/3 for surplus-value. Simultaneously with the increase in the number of laborers the constant capital, the value of the means of production, has fallen from 100 to 90. We have before us, then, a case of decreasing productivity of labor combined with a simultaneous decrease of constant capital. Is such a case economically possible?
I.III.32

In agriculture and industries engaged in the extraction of substances, where a decrease in the productivity of labor and, therefore, an increase in the number of laborers are readily understood, this process is accompanied on the basis and within the scope of capitalist production, by an increase of constant capital, not by a decrease. Even if our assumed decrease of c were due merely to a fall in prices, an individual capital would be able to accomplish the transition from I) to II) only under very exceptional circumstances. But in the case of two independent capitals invested in different countries, or in different lines of agriculture or extractive industry, it would not be strange if more laborers (and therefore more variable capital) were

employed on less valuable or fewer means of production in the case of one than in the other.
I.III.33

But let us have done with the assumption that the wages remain the same, and let us explain the rise of the variable capital from 20 to 30 by a rise of wages by one-half. Then we have another case. The same number of laborers continue to work with the same or slightly reduced means of production. If the working day remains unchanged, say at 10 hours, then the total product also remains unchanged. It was and remains 30. But this amount of 30 is now required to make good the consumed variable capital. The surplus-value would have disappeared. But we had assumed that the rate of surplus-value should remain constant at 50%, the same as in I). This is possible only if the working day is prolonged by one-half, increased to 15 hours. In that case 20 laborers produce in 15 hours a total value of 45, and all conditions would be fulfilled. We should have

II). 90 c + 30 v + 15 s. C would be 120, s', 50% and p', 12½%.
I.III.34

Under these circumstances the 20 laborers do not require any more instruments, tools, machines, etc., than in the case of I). Only the raw materials or auxiliary substances would have to be increased by one-half. If there were a fall in the prices of these materials, then the

transition from I) to II) under the conditions of our assumed case might very well be accomplished even by an individual capital. And the capitalist would be somewhat compensated by increased profits for any loss incurred through the depreciation of his constant capital.
I.III.35

Now let us assume that the variable capital were to be reduced instead of increased. Then we have but to reverse our example. We have but to assume that II) is the original capital and to pass from II) to I). Then II), or 90 c + 30 v + 15 s changes into I), or 100 c + 20 v + 10 s, and it is evident that this transposition does not alter any of the conditions which regulate the respective rates of profit and their mutual relations.
I.III.36

If v falls from 30 to 20 because the number of laborers is reduced by one-third while the constant capital increases, then we have before us the normal case of modern industry, namely an increasing productivity of labor, an operation of a larger mass of means of production by fewer laborers. That this process is necessarily connected with a simultaneous fall of the rate of profit, will be demonstrated in the third part of this volume.
I.III.37

On the other hand, if v falls from 30 to 20 because the same number of laborers are employed at lower wages, while the working day remains the same, then the total product in values would remain 30 v + 15 s, or 45. Since wages have fallen to 20, the surplus-value would rise to 25, the rate of surplus-value from 50% to 125%, contrary to our assumption. In order to comply with the conditions of our case, the surplus-value, with its rate at 50%, must fall to 10. The total product must, therefore, fall from 45 to 30, and this is possible only by a reduction of the working day by one-third. Then we have, the same as before, 100 c + 20 v + 10 s. C equals 120, s', 50%, and p', 8 1/3%.

I.III.38

It need hardly be mentioned that this reduction of the working time with a fall in wages would not occur in practice. But this is immaterial. The rate of profit is a function of several variable magnitudes, and if we wish to know in what manner these variable magnitudes influence the rate of profit, we must analyze the individual effect of each seriatim, regardless of whether such an isolated effect is practicable with one and the same capital or not.

2) s' constant, v variable, C changed by the variation of v.

I.III.39

This case differs from the preceding one only in degree. Instead of c decreasing or increasing by as much as v increases or decreases, c remains constant. Under the modern conditions of great industry and agriculture the variable capital is but a relatively small part of the total capital. For this reason, the increase or decrease of the total capital, so far as either is due to variations of the variable capital, are likewise relatively small.
I.III.40

Let us start out again with a capital I) of 100 c + 20 v + 10 s. C equals 120, s' 50%, and p' 8 1/3%. This will then be transformed into II) 100 c + 30 v + 15 s, with C at 130, s' at 50%, and p' at 11 7/13%. The opposite case, in which the variable capital would decrease, would be symbolized by the transition from II) to I).
I.III.41

The economic conditions would be essentially the same as in the preceding case, and therefore require no reiteration. The transition from I) to II) implies a decrease in the productivity of labor by one-half. The assimilation of 100 c requires an increase of labor in II) by one-half over that of I). This case may occur in agriculture.*9
I.III.42

While in the preceding case the total capital remained constant, owing to the conversion of constant capital into variable, or vice versa, there

is in this case a tie-up of additional capital, if the variable capital is increased, and a release of previously employed capital, if the variable capital decreases.

3) s' and v constant, c and C variable.

I.III.43

In this case, the equation p' = s' v/ C is changed into p1' = s' v/ C1. After eliminating the same factors on both sides, we have p1': p' = C: C1. In other words, if the rates of surplus-value are the same and the variable capitals equal, the rates of profit are inversely proportioned to the total capitals.

I.III.44

Take it that we have three different capitals, or three different conditions of the same capital, for instance

I) 80 c + 20 v + 20 s; C = 100, s' = 100%, p' = 20%
II) 100 c + 20 v + 20 s; C = 120, s' = 100%, p' = 16 2/ 3%
III) 60 c + 20 v + 20 s; C = 80, s' = 100%, p' = 25%

I.III.45

Then we obtain the proportions:

20% : 16 2/3% = 120 : 100, and 20% : 25% = 80 : 100.

I.III.46

The general formula previously given for variations of v/C when s' remained constant was p1' = s' ev/EC. Now it becomes p' = s' v/EC. For since v remains unchanged, the factor e, or v1/v, becomes equal to 1.

I.III.47

Since s'v equals s, the mass of surplus-value, and since both s' and v remain constant, it follows that s is not affected by any variation of C. The mass of surplus-value is the same after the change that it was before.

I.III.48

If c were to fall to zero, p' would be equal to s', that is to say, the rate of profit equal to the rate of surplus-value.

I.III.49

The alteration of c may be due either to a mere change in the value of the material elements of constant capital, or to a change in the technical composition of the total capital, that is to say a change in the productivity of labor in that line of industry. In the last named

case, the increase in the productivity of social labor due to the development of industry and agriculture on a large scale would bring about a transition, in the above illustration, from III to I and from I to II. A quantity of labor paid with 20 and producing a value of 40 would first work up means of production valued at 60. With a further increase in the productivity, and the same value, the means of production would be worked up to the amount of 80, and later on of 100. A reversion of this succession would imply a decrease in productivity. The same quantity of labor would work up a smaller quantity of means of production, the business would be cut down. This may occur in agriculture, mining, etc.
I.III.50

A saving in constant capital increases on the one hand the rate of profit, and on the other sets free some capital. It is, therefore, of great importance for the capitalist. We shall analyze this point later on, and likewise the influence of a change of prices of the elements of constant capital, particularly of raw materials.
I.III.51

We see once more, by this illustration, that a variation of the constant capital uniformly affects the rate of profit, no matter whether this variation is due to an increase or decrease of the material elements of c, or merely to a change in their value.

4) s' constant, v, c, and C variable.

I.III.52

In this case, the general formula indicated at the outset, namely p' = s' ev/ EC, remains in force. It follows from this, assuming the rate of surplus-value to remain the same, that
I.III.53

a) the rate of profit falls, if E is greater than e, that is to say, if the constant capital increases to such an extent that the total capital grows at a faster rate than the variable capital. If a capital of 80 c + 20 v + 20 s is transformed so that it becomes 170 c + 30 v + 30 s, then s' remains at 100%, but v/ C falls from 20/ 100 to 30/ 200, in spite of the fact that both v and C have augmented, and the rate of profit falls correspondingly from 20% to 15%.
I.III.54

b) The rate of profit remains unchanged only in the case that e equals E, that is to say, if the fraction v/ C retain the same value even if the fraction is apparently changed, in other words, if its numerator and denominator are multiplied or divided by the same number. It is evident that the capital 80 c + 20 v + 20 s and the capital 160 c + 40 v + 40 s have the same rate of profit, namely

20%, because s' remains at 100% and v/C represents the same value, whether we write it 20/100 or 40/200.
I.III.55

c) The rate of profit arises, when e is greater than E, that is to say, when the variable capital grows at a faster rate than the total capital. If 80 c + 20 v + 20 s becomes 120 c + 40 v + 40 s, then the rate of profit rises from 20% to 25%, because s' has remained the same and v/C has risen from 20/100 to 40/160, or from 1/5; to ¼.
I.III.56

If the variation of v and C follows the same direction, we may look upon this change of magnitude up to a certain degree as though both of them varied in the same proportion, so that v/C would be regarded as unchanged to that extent. Beyond this point only one of them would then vary, and by this means we should reduce this complicated case to one of the preceding simpler ones.
I.III.57

For instance, if 80 c + 20 v + 20 s becomes 100 c + 30 v + 30 s, then the proportion of v to c, and also to C, remains the same up to the point of 100 c + 25 v + 25 s. Up to that point, the rate of profit remains likewise unchanged. We may then take our departure from 100 c + 25 v + 25 s. We find that later increased by 5 and became 30, so that C rose from 125 to 130. This is identical with the second

case, that of the simple variation of v and the consequent variation of C. The rate of profit, which was originally 20%, rises by this addition of 5 v to 23 1/13, always assuming the rate of surplus-value to remain the same.
I.III.58

The same reduction to a simpler case can take place, whenever v and C change their magnitudes in opposite directions. For instance, let us start out once more from 80 c + 20 v + 20 s, and let this become 110 c + 10 v + 10 s. In that case, the rate of profit would have remained the same, if the variation had proceeded to the point of 40 c + 10 v + 10 s. It would still have been 20%. By adding 70 c to this intermediate form, the rate of profit is lowered to 8 1/3%. Thus we have reduced this case to a case of variation of one magnitude, namely of c.
I.III.59

Simultaneous variations of v, c, and C, do not, then, offer any new points of analysis. For they may be reduced in the last resort to cases in which only one factor is variable.
I.III.60

Even the only remaining case has actually been covered, namely that in which v and C are numerically unchanged, while their material elements experience a change of value, so that v stands for a

changed quantity of assimilated labor and c for a changed quantity of assimilated means of production.
I.III.61

For instance, in the capital 80 c + 20 v + 20 s, let 20 v indicate originally the wages of 20 laborers working 10 hours daily. Then let the wages of each laborer increase from 1 to 1¼. In that case 20 v pay only 16 laborers instead of 20. Now, if 20 laborers produce in 200 working hours a value of 40, then 16 laborers will produce in 160 working hours a value of only 32. After deducting 20 v for wages, only 12 would remain for surplus-value. The rate of surplus-value would have fallen from 100% to 60%. But since our assumption is that the rate of surplus-value shall remain constant, the working day would have to be prolonged by one-quarter, from 10 hours to 12½ hours. If 20 laborers, working 10 hours daily, or 200 hours, produce a value of 40, then 16 laborers, working 12½ hours daily, or 200 hours, will produce the same value, and the capital of 80 c + 20 v produces the same surplus-value of 20.
I.III.62

Vice versa, if wages fall to such an extent that 20 v indicates the wages of 30 laborers, then s' can remain unchanged only in the case that the working day is reduced from 10 to 6 2/3 hours. For 20 × 10 = 30 × 6 2/3 = 200 working hours.
I.III.63

We have discussed previously in these diverging assumptions, to what extent c may express the same value in money, and yet represent different quantities of means of production corresponding to different conditions. In reality this case will very rarely be practicable in its purely theoretical form.
I.III.64

As for the change of value of the elements of c, by which their mass is increased or decreased, it touches neither the rate of surplus-value nor the rate of profit, so long as it does not imply a change of magnitude in v.
I.III.65

We have now exhausted all possible cases of variation of v, c, and C in our equation. We have seen that the rate of profit may fall, rise, or remain unchanged, while the rate of surplus-value remains the same, for the least variation in the proportion of v to c, or to C, is sufficient to change the rate of profit.
I.III.66

We have seen, furthermore, that there is everywhere a certain limit in the variation of v where the constancy of s' becomes economically impossible. Since every one-sided variation of c must also arrive at a certain limit where v can no longer remain unchanged, we find that

every possible variation of v/C has certain limits, beyond which s' must likewise become variable. In the variations of s', which we shall now discuss, this interaction of the different variable magnitudes of our equation will become still plainer.

II. s' variable.

I.III.67

We obtain a general formula for the rates of profit with variable rates of surplus-value, no matter whether v/C remains constant or not, by converting the equation p' = s' v/C into p1' = s1' v1/C1. Here p1', s1', C1, and v1 indicate the changed values of p', s', C, and v. Then we have p': p1' = s'v/C: s1' v1/C1. This may be manipulated into

$$p1' = s1'/s' \times v1/v \times c/c1 \times p'.$$

1) s' variable, v/C constant.

I.III.68

In this case we have the equations p' = s' v/C and p1' = S1' v/C. In both of them v/C is equal. Therefore p': p1' = s': s1. That is to say, the rates of profit of two capitals of the same composition are proportioned as the corresponding two rates of surplus-value. Since it

is not a question, in the fraction v/C, of the absolute magnitude of v and C, but only of their proportion to one another, this applies to all capitals of equal composition, whatever may be their absolute magnitude.

80 c + 20 v + 20 s; C = 100, s' = 100% p' = 20%.
160 c + 40 v + 20 s; C = 200, s' = 50%, p' = 10%.
100% : 50% = 20% : 10%.

I.III.69

If the absolute magnitudes of v and C are the same in both cases, then the rates of profit are also proportioned to one another as the masses of surplus-value: p': p1' = s'v: s1'v = s: s1. For instance:

80 c + 20 v + 20 s; s' = 100%, p' = 20%.
80 c + 20 v + 10 s; s' = 50%, p' = 10%.
20%: 10% = 100 × 20: 50 × 20 = 20 s: 10 s.

I.III.70

Now, it is evident that with capitals of equal absolute composition, or equal percentages of composition, the rates of surplus-value can differ only when either the wages, or the length of the working day, or the intensity of labor are different. Take the following three cases:

I. 80 c + 20 v + 10 s; s' = 50%, p' = 10%.

II. 80 c + 20 v + 20 s; s' = 100%, p' = 20%.

III. 80 c + 20 v + 40 s; s' = 200%, p' = 40%.

I.III.71

In the case of I, the total product in values is 30, namely 20 v + 10 s, in II it is 40, in III it is 60. This may come about in three different ways.

I.III.72

First, if the wages are different, so that 20 v expresses in every individual case a different number of laborers. Take it that capital I employs 15 laborers for 10 hours per day at a wage of 1 1/3 p.st. and that these laborers produce a value of 30 p.st, of which 20 p.st. make good the wages and 10 p.st. are surplus-value. If wages fall to 1 p.st., then 20 laborers may be employed for 10 hours, and they will produce a value of 40 p.st., of which 20 p.st. make good wages and 20 p.st. are surplus-value. If wages fall still more, for instance to 2/3 p.st., then 30 laborers may be employed for 10 hours, and they will produce a value of 60 p.st., 40 p.st. of which will represent surplus-value after deducting 20 p.st. for wages.

I.III.73

This case, in which the percentages of composition of the capital, the working day, the intensity of labor, are constant, while the rate of surplus-value varies on account of the variation of wages, is the only one in which Ricardo's assumption is correct, to-wit, that "profits would be high or low, exactly in proportion as wages would be low or high." (Principles, chapter I, section III, page 18 of the "Works of D. Ricardo," edited by MacCulloch, 1852.)
I.III.74

Secondly, if the intensity of labor varies. In that case 20 laborers produce with the same means of production in 10 hours of daily labor 30 pieces of a certain commodity in I, 40 pieces in II, and 60 pieces in III. Every piece represents, aside from the value of the means of production incorporated in it, a new value of 1 p.st. Since every 20 pieces make good the wages of 20 p.st., there remain 10 pieces at 10 p.st. for surplus-value in I, 20 pieces at 20 p.st. in II, and 40 pieces at 40 p.st. in III.
I.III.75

Thirdly, the working day may vary in length. If 20 laborers work with the same intensity for 9 hours in I, 12 hours in II, and 18 hours in III, then their total products, 30:40: 60 vary in the proportions 9: 12: 18. And since wages are 20 in every case, the surplus-value is 10, or 20, or 40 respectively.
I.III.76

An increase or decrease in wages, then, influences the rate of surplus-value, and, since v/C was assumed as constant, also the rate of profit, inversely, while an increase or decrease in the intensity of labor, a lengthening or shortening of the working day, influence them in the same direction.
2

2) s' and v variable, C constant.

I.III.77

In this case the following proportion applies: p': p1' = s' v/C: s1' v1/C = s'v: s1'v1 = s: s1.
I.III.78

The rates of profit are proportioned to one another as the corresponding masses of surplus-value.
I.III.79

A variation of the rate of surplus-value, while the variable capital remains constant, signifies a change in the magnitude and distribution of the product in values. A simultaneous variation of v and s' also implies always a change in the distribution, but not always a change in the magnitude of the product in values. Three cases are possible.

I.III.80

a) The variation of v and s' takes place in opposite directions, but by the same amount, for instance:

80 c + 20 v + 10 s; s' = 50%, p' = 10%.
90 c + 10 v + 20 s; s' = 200%, p' = 20%.

I.III.81

The product in values is equal in both cases, hence the quantity of labor performed likewise: 20 v + 10 s = 10 v + 20 s = 30. The difference is only that in the first case 20 are paid for wages and 10 remain for surplus-value, while in the second case wages are 10 and surplus-value 20. This is the only case in which the number of laborers, the intensity of labor, and the length of the working day remain unchanged, while v and s' vary.
I.III.82

b) The variation of s' and v takes place in opposite directions, but not by the same amount. In that case the variation of either v or s' is the greater.

I. 80 c + 20 v + 20 s; s' = 100%, p' = 20%.
II. 72 c + 28 v + 20 s; s' = 71 3/7%, p' = 20%.

III. 84 c + 16 v + 20 s; s' = 125%, p' = 20%.

I.III.83

Capital I pays for a product in values amounting to 40 with 20 v, II a value of 48 with 28, and III a value of 36 with 16. Both the product in values and the wages have changed. But a change in the product in values means a change in the amount of labor performed, and this implies a change either in the number of laborers, the hours of labor, or the intensity of labor, or in more than one of these.
I.III.84

c) The variation of s' and v takes place in the same direction. In that case it intensifies the effect of either.

90 c + 10 v + 10 s; s' = 100%, p' = 10%.
80 c + 20 v + 30 s; s' = 150%, p' = 30%.
92 c + 8 v + 6s; s' = 75%, p' = 6%.

I.III.85

In these cases the three products in value are also different namely 20, 50, and 14. And this difference in the magnitude of the respective quantities of labor reduces itself once more to a difference in the

number of laborers, the hours of labor, and the intensity of labor, or of several or all of these factors.

3) s', v and C variable.

I.III.86

This case offers no new points of view and is solved by the general formula given under II, in which s' is variable.

I.III.87

The effect of a change in the magnitude of the rate of surplus-value on the rate of profit is summed up, according to the foregoing, by the following cases:

I.III.88

1) p' increases or decreases in the same proportion as s', if v/C remains constant.

80 c + 20 v + 20 s; s' = 100%, p' = 20%.
80 c + 20 v + 10 s; s' = 50%, p' = 10%.
100%: 50% = 20%: 10%.

I.III.89

2) p' rises or falls at a greater rate than s', if v/C moves in the same direction as s', that is to say, if v/C increases or decreases when s' increases or decreases.

80 c + 20 v + 10 s; s' = 50%, p' = 10%.
70 c + 30 v + 20 s; s' = 66 2/3%, p' = 20%.
50%: 66 2/3% < 10%: 20%.

I.III.90

3) p' rises or falls at a smaller rate than s', if v/C changes in the opposite direction from s', but at a smaller rate.

80 c + 20 v + 10 s; s' = 50%, p' = 10%.
90 c + 10 v + 15 s; s' = 150%, p' = 15%.
50%: 150% > 10%: 15%.

I.III.91

4) p' rises, while s' falls, or falls while s' rises, if changes in the opposite direction and at a greater rate than s'.

80 c + 20 v + 20 s; s' = 100%, p' = 20%.
90 c + 10 v + 15 s; s' = 150%, p' = 15%.

s' has risen from 100% to 150%, p' has fallen from 20% to 15%.
I.III.92

5) Finally, p' remains constant, while s' rises or falls, if v/C changes in the opposite direction, but at exactly the same rate, as s'.
I.III.93

It is only this last case which requires some further explanation. We observed in the variations of v/C that the same rate of surplus-value may be an expression of different rates of profit. We see now that the same rate of profit may be based on different rates of surplus-value. So long as s' is constant, any change in the proportion of v to C is sufficient to call forth a difference in the rate of profit. But if s' varies in magnitude, it requires a corresponding inverse change of v/C in order that the rate of profit may remain the same. This happens but exceptionally in the case of one and the same capital, or of two capitals in one and the same country. Take it that we have a capital 80 c + 20 v + 20 s; C = 100, s' = 100%, p' = 20%. And let us assume that wages fall to such an extent that the same number of laborers may be bought for 16 v instead of 20 v. Then we have released 4 v, and other circumstances remaining the same, our capital will have the composition 80 c + 16 v + 24 s; C = 96, s' = 150%, p' = 25%. In order that p' may be 20%, as before, the total capital would have to increase to 120, the constant capital, therefore, to 104, thus, 104 c + 16 v + 24 s; C = 120, s' = 150%, p' = 20%.

I.III.94

This would be possible only if the fall in wages were accompanied by a change in the productivity of labor, which would require such a change in the composition of capital. Or, it might be that the money-value of the constant capital would increase from 80 to 104. In short, it would require an accidental coincidence of conditions such as occurs very rarely. In fact, a variation of s' which does not imply a simultaneous variation of v, and thus of v/C is practicable only under very definite conditions. It may happen in lines of industry in which only fixed capital and labor are employed, while the materials of labor are supplied by nature.

I.III.95

But this is not so in the comparison of the rates of profit of two different countries. For in that case the same rate of profit is based as a rule on different rates of surplus-value.

I.III.96

It follows from all of these five cases that a rising rate of profit may be the companion of a falling or rising rate of surplus-value; a falling rate of profit go hand in hand with a rising or falling rate of surplus-value; a constant rate of profit exist by the side of a rising or falling rate of surplus-value. And we have seen under No. I that a rising,

falling, or constant rate of profit may be based on a constant rate of surplus-value.

I.III.97

The rate of profit, then, is determined by two main factors, namely the rate of surplus-value and the composition of the value of capital. The effects of these two factors may be briefly summed up in the manner stated hereafter. We may, in this summing up, express the composition of capital in percentages, for it is immaterial for this point which one of the two portions of capital is the cause of variation.
I.III.98

The rates of profits of two different capitals, or of one and the same capital in two different successive conditions, are equal
I.III.99

1) If the percentages of composition of capital are the same and the rates of surplus-value equal.
I.III.100

2) If the percentages of composition are not the same, and the rates of surplus-value unequal, provided that the products of the multiplication of the rates of surplus-value by the percentages of the variable portions of capital (s' and v) are the same, that is to say,

the masses of surplus-value (s = s'v) calculated in percentages on the total capital; in other words, if the factors s' and v are inversely proportioned to one another in both cases.
I.III.101

They are unequal
I.III.102

1) If the percentages of composition are equal and the rates of surplus-value unequal, in which case the rates of profit are proportioned as the rates of surplus-value.
I.III.103

2) If the rates of profit are the same and the percentages of composition unequal, in which case the rates of profit are proportioned as the variable portions of capital.
I.III.104

3) If the rates of profit are unequal and the percentages of composition not the same, in which case the rates of profit are proportioned as the products s'v, that is to say, as the masses of surplus-value calculated in percentages on the total capital.*10

Notes for this chapter

9.

The manuscript has the following note at this point: "Investigate later in what manner this case is connected with ground-rent."

10.

The manuscript contains also very detailed calculations of the difference between the rate of surplus-value and the rate of profit (s'‘ p'); these show very interesting peculiarities and their movement indicates the cases in which the two rates draw apart or approach one another. These movements may be represented by curves. I do not reproduce this material, because it is of less importance for the immediate purposes of this work. It is enough to call the attention of those readers to this fact who wish to follow up this line of inquiry.‘F. E.

Part I,

Volume III Chapter IV THE EFFECT OF THE TURN-OVER ON THE RATE OF PROFIT.

I.IV.1

THE effect of the turn-over on the production of surplus-value, and consequently of profit, has been discussed in volume II. It may be briefly summarized in the statement that the entire capital cannot be employed all at once in production, because the turn-over requires a

certain lapse of time; for this reason a portion of the capital is always lying fallow, either in the form of money-capital, of a supply of raw materials, of finished but still unsold commodity-capital, or of outstanding bills not yet due; hence the capital active in the production and appropriation of surplus-value is always short by this amount, and the production and appropriation of surplus-value is curtailed to that extent. The shorter the period of turn-over, the smaller is the fallow portion of capital as compared with the whole, and the larger will be the appropriated surplus-value, other conditions remaining the same.
I.IV.2

It has been shown explicitly in the second volume to what extent the mass of the produced surplus-value is augmented by the reduction of the period of turn-over, or of one of its two sections, the time of production and the time of circulation. But it is evident that any such reduction increases the rate of profit, since this rate expresses but the mass of surplus-value produced in proportion to the total capital employed in production. Whatever has been said in the second part of the second volume in regard to surplus-value, applies just as well to profit and the rate of profit, and requires no repetition at this place. We shall touch only upon a few of the principal points.
I.IV.3

A reduction of the time of production is mainly due to an increase in the productivity of labor, a thing commonly called the progress of industry. If this does not require at once a considerable extra-outlay of capital for expensive machinery, etc., and thus a reduction of the rate of profit, which is calculated on the total capital, this rate must rise. And this is decidedly the case with many of the latest improvements in metallurgy and chemical industry. The recently discovered methods of making iron and steel, such as the processes of Bessemer, Siemens, Gilchrist-Thomas, etc., shorten formerly tedious processes to a minimum with relatively small expense. The making of alizarin, a red coloring substance extracted from coal-tar, produces in a few weeks, by the help of already existing installations for the manufacture of coal-tar colors, the same results which formerly required years. It took at least one year to mature the plants from which this coloring matter was formerly extracted, and it was customary to let them grow a few years before the roots were used for the purpose of making color.
I.IV.4

The time of circulation is reduced principally by improved means of communication. In this respect the last fifty years have brought about a revolution, which can be compared only with the industrial revolution of the last half of the eighteenth century. On land the macademized road has been displaced by the railroad, on sea the slow and irregular sailing vessel by the rapid and regular steamboat line, and the entire

globe has been circled by telegraph wires. The Suez Canal has fully opened Eastern Asia and Australia for steamer traffic. The time of circulation of a shipment of commodities to Eastern Asia was at least twelve months as late as 1847, and it has now been reduced to almost as many weeks. The two large centers of commercial crises, 1825-1857, America and India, have been brought from 70 to 90 per cent. nearer to Europe by this revolution of the means of communication, and have thereby lost a good deal of their explosive nature. The period of turn-over of the world's commerce has been reduced to the same extent, and the productive capacity of the capital engaged in it has been doubled or trebled. It goes without saying that this has not been without effect on the rate of profit.
I.IV.5

In order to view the effect of the turn-over of the total capital on the rate of profit in its purest form, it is necessary to assume all other conditions of two compared capitals as equal. Aside from the rate of surplus-value and the working day it is especially the percentages of composition which we assume to be the same. Now let us select a capital A composed of 80 c + 20 v = 100 C. Let this have a rate of surplus-value of 100%, and let it be turned over twice per year.
I.IV.6

The annual product is then 160 c + 40 v + 40 s. But for the purpose of ascertaining the rate of profit we do not calculate the 40 s on the

turned-over capital-value of 200. We calculate it on the advanced capital of 100, and we obtain thus a rate of profit of 40%.
I.IV.7

Now let us compare this with a capital B composed of 160 c + 40 v = 200 C, which has the same rate of surplus-value, 100%, but which is turned over only once a year.
I.IV.8

The annual product of this capital is the same as that of A, namely 160 c + 40 v + 40 s. But the 40 s in this case are to be calculated on an advance of capital amounting to 200, so that the rate of profit of B is only 20%, or one-half that of A.
I.IV.9

We find, then, that with capitals with equal percentages of composition, equal rates of surplus-value, and equal working days, the rates of profit are proportioned inversely as their periods of turn-over. If either the composition, or the rates of surplus-value, or the working day, or the wages, are unequal in the two compared cases, then other differences are naturally produced in the rates of profit. But these are not directly dependent on the turn-over, and do not concern us at this point. They have already been discussed in chapter III.
I.IV.10

The direct effect of a reduced period of turn-over on the production of surplus-value, and consequently of profit, consists in the increased effectiveness given thereby to the variable portion of capital, as shown in volume II, chapter XVI, The Turn-Over of Variable Capital. It was demonstrated in that chapter that a variable capital of 500, which is turned over ten times per year, produces during this time as much surplus-value as a variable capital of 5,000 with the same rate of surplus-value and the same wages, turned over once a year.
I.IV.11

Take a capital (I) consisting of 10,000 fixed capital, with an annual wear and tear of 10%, or 1,000, furthermore of 500 circulating constant and 500 variable capital. Let the rate of surplus-value be 100%, and let the variable capital be turned over ten times per year. For the sake of simplicity we assume in all following examples that the circulating constant capital is turned over in the same time as the variable, which is generally the case in practice. Then the product of one such period of turn-over will be

100 c (wear) + 500 c + 500 v + 500 s = 1,600.

I.IV.12

And the product of one entire year, with ten such turn-overs, will be

1,000 c (wear) + 5,000 c + 5,000 v + 5,000 s = 16,000.

Then C is 11,000, s is 5,000, p' is 5000/ 11000, or 45 5/ 11%.
I.IV.13

Now let us take another capital (II), composed of 9,000 fixed capital, with an annual wear and tear of 1,000, circulating constant capital 1,000, variable capital 1,000, rate of surplus-value 100%, number of annual turn-overs of variable capital 5. Then the product of each one of these turn-overs of the variable capital will be

200 c (wear) + 1,000 c + 1,000 v + 1,000 s = 3,200.

And the annual product (of all five turn-overs) will be

1,000 c (wear) + 5,000 c + 5,000 v + 5,000 s = 16,000.

Then C is 11,000, s is 5,000, and p' is 5000/ 11000, or 45 5/ 11%.
I.IV.14

Take furthermore a third capital (III) with no fixed capital, 6,000 circulating constant capital, and 5,000 variable capital. Let the rate of surplus-value be 100%, and let there be one turn-over per year. Then the total product of one year is

6,000 c + 5,000 v + 5,000 s = 16,000.

C is 11,000, s is 5,000, and p' is 5000/11000, or 45 5/11%.
I.IV.15

In other words, we have in all three of these cases the same annual mass of surplus-value, namely 5,000, and since the total capital is likewise the same in all three cases, namely 11,000, the rate of profit is also the same, namely 45 5/11%.
I.IV.16

But now let us assume that capital (I) has only 5 instead of 10 turn-overs of its variable capital per year. In that case the outcome is different. The product of one turn-over is then 200 c (wear) + 500 c + 500 v + 500 s = 1,700. And the product of one year is

1,000 c (wear) + 2,500 c + 2,500 v + 2,500 s = 8,500.

C is 11,000, s is 2,500, p' is 2500/11000, or 22 8/11%. The rate of profit has fallen by one-half, because the time of turn-over has been doubled.
I.IV.17

The amount of surplus-value appropriated during one year is therefore equal to the mass of surplus-value appropriated during one turn-over

of the variable capital multiplied by the number of such turn-overs per year. If we call the surplus-value, or profit, appropriated during one year S, the surplus-value appropriated during one period of turn-over of the variable capital s, the number of turn-overs of the variable capital in one year n, then S = sn, and the annual rate of surplus-value S' = s'n, as demonstrated in Volume II, chapter XVI, I.
I.IV.18

It is understood that the formula p' = s' v/ c = s' v/ c+v is correct only so long as the v of the numerator is the same as that of the denominator. In the denominator v stands for the entire portion of the total capital used on an average as variable capital for the payment of wages. In the numerator, v is determined in the first place by the fact that a certain amount of surplus-value s is produced and appropriated by it. The proportion of this surplus-value to the variable capital, s/ v, constitutes the rate of surplus-value. It is only in this way that the formula p' = s/ c+v is transformed into p' = s' v/ c+v. Now the v of the numerator is more definitely described by stating that it must be equal to the v of the denominator, that is to say equal to the entire variable capital of C. In other words, the equation p' = s/ C can be transformed into the equation p' = s' v/ c+v only in the case that s stands for the surplus-value produced in one turn-over of the variable capital. If s stands for only a portion of this surplus-value, then s = s'v is still correct, but this v is then smaller than the v in C = c + v, because less than the entire variable capital has been

employed in the payment of wages. On the other hand, if s stands for more than the surplus-value of one turn-over of v, then a portion of this v, or perhaps the whole, serves twice, namely in the first and in the second turn-over, and eventually it may serve in the subsequent turn-overs. The v which produces the surplus-value, and which represents the sum of all paid wages, is then greater than the v in c + v and the calculation becomes wrong.
I.IV.19

In order that the formula for the annual rate of profit may be exact, we must substitute the annual rate of surplus-value for the simple rate of surplus-value, we must substitute S' or s'n for s'. In other words, we must multiply the rate of surplus-value, s', or, what amounts to the same, the variable capital v contained in C, with n, the number of turn-overs of this variable capital in one year. Thus we obtain p' = s'n v/ C, which is the formula for the calculation of the annual rate of profit.
I.IV.20

In most cases the capitalist himself does not know the amount of variable capital invested in his business. We have seen in chapter VIII of volume II, and shall see further along, that the only distinction which forces itself upon the capitalist within his capital is that of fixed and circulating capital. From the cash-box containing the money-part of the circulating capital in his hands, so far as it is not deposited in

a bank, he takes the money to pay wages, and from the same cash-box he takes the money for raw and auxiliary materials. And he credits both expenditures to the same cash account. And even if he should keep a separate account for wages, it would show at the end of the year the amounts paid out for wages, that is vn, but not the variable capital v itself. In order to ascertain this, he would have to make a special calculation, of which we propose to give an illustration. I.IV.21

We select for this purpose the cotton spinnery of 10,000 mule spindles described in volume I. We assume that the data there given for one week of April, 1871, are in force during the whole year. The fixed capital incorporated in the machinery was valued at 10,000 p.st. The circulating capital was not given. We assume it to have been 2,500 p.st. This is a rather high estimate, but it is justified by the assumption, which we must always make in this discussion, that no credit was in force, in other words, no permanent or temporary employment of other people's capital. The value of the weekly product was composed of 20 p.st. for wear of machinery, 358 p.st. of circulating constant capital (rent 6 p.st., cotton 342 p.st., coal, gas, oil, 10 p.st.), 52 p.st. of variable capital paid out for wages, and 80 p.st. of surplus-value. The formula was, therefore

$$20\ c\ (\text{wear}) + 358\ c + 52\ v + 80\ s = 510.$$

I.IV.22

The weekly advance of circulating capital consisted therefore of 358 c + 52 v = 410, and its percentages of composition were 87.3 c + 12.7 v. Calculating the entire circulating capital of 2,500 p.st., on this basis, we obtain 2,182 p.st. of constant and 318 p.st. of variable capital. Since the total expenditure for wages in one year was 52 times 52 p.st., or 2,704 p.st., it follows that the variable capital of 318 p.st. was turned over almost exactly 8½ times in one year. The rate of surplus-value was 80/52, or 153 11/13%. We calculate the rate of profit from these elements by inserting the above values in the formula p' = s'n v/C. Since s' is 153 11/13, n is 8½ v is 318, and C is 12,500, we have

$$p' = 153\ 11/13 \times 8½ \times 818/12{,}500 = 33.27\%.$$

I.IV.23

We test this result by means of the simple formula p' = s/C. The total surplus-value or profit, of one year amounts to 52 times 80 p.st., or 4,160 p.st. Dividing this by the total capital of 12,500, we obtain 33.28%, or almost the identical result. This is an abnormally high rate of profit, due to the extraordinarily favorable conditions of the moment (very low prices of cotton and very high prices of yarn). In reality this rate was certainly not maintained throughout the year.

I.IV.24

The term s'n in the formula p' = s'n v/c stands for the same thing which was called the annual rate of surplus-value in volume II. In the above case it is 153 11/13% multiplied by 8½, or in exact figures 1,307 9/13%. A certain brave soul was shocked to the point of speechlessness over the abnormity of an annual rate of profit of 1,000%, which had been used as an illustration in that volume. Perhaps he will now settle down peacefully and contemplate this annual rate of surplus-value of more than 1,300% taken from the practical life of Manchester. In times of greatest prosperity, such as we have not seen for a long time, a similar rate is by no means rare.
I.IV.25

By the way, this is an illustration of the actual composition of capital in modern great industry. The total capital is divided into 12,182 p.st. of constant and 318 p.st. of variable capital, a total of 12,500 p.st. In percentages this is 97½ c + 2½ v = 100 C. Only one-fortieth of the total capital serves for the payment of wages, but it is turned over eight times during the year.
I.IV.26

Since very few capitalists take the trouble of making similar calculations with reference to their own business, the science of statistics is almost completely silent regarding the proportion of the

constant portion of the total social capital to its variable portion. Only the American Census gives what is possible under modern conditions, namely the amount of wages paid in each line of business and the profits realized. These data are, of course, very doubtful, because they are based on uncontrollable statements of the capitalists, but they are nevertheless very valuable, and the only records available on this subject. In Europe we are far too delicate to expect such revelations from our great capitalists.‘F. E.]

Part I,

Volume III Chapter V ECONOMIES IN THE EMPLOYMENT OF CONSTANT CAPITAL.

I. General Economies.

I.V.1

THE increase of absolute surplus-value, or the prolongation of surplus-labor and thus of the working day, while the variable capital remains the same and employs the same number of laborers at the same nominal wages, no matter whether overtime is paid for or not, reduces relatively the value of the constant capital as compared to the total and the variable capital, and thereby increases the rate of profit even aside from the growth and mass of surplus-value and a possibly

rising rate of surplus-value. The volume of the fixed portion of constant capital, such as factory buildings, machinery, etc., remains the same, no matter whether they serve for 16 or for 12 hours in the labor-process. A prolongation of the working day does not require any new expenditures for this most expensive portion of the constant capital. Furthermore, the value of the fixed capital is thereby reproduced in a smaller number of periods of turn-over, so that the time for which it must be advanced in order to make a certain profit is abbreviated. A prolongation of the working day therefore increases the profit, even if overtime is paid, or even if it is paid better, up to a certain limit, than the normal hours of labor. The ever more pressing necessity for the increase of fixed capital in modern industry was therefore one of the main reasons which induced profit-loving capitalists to prolong the working day.*11
I.V.2

The same conditions do not obtain if the working day is constant. In that case it is necessary either to increase the number of laborers and with them to a certain extent the mass of fixed capital (buildings, machinery, etc.), in order to exploit a greater quantity of labor (for we leave aside the question of deductions from wages or depression of wages below their normal level), or, if the intensity of labor and the productivity of labor are to be augmented and more relative surplus-value produced, the quantity of the circulating portion of constant capital increases in those lines which use raw materials, since

more raw material is worked up within a certain time. And in the second place, the mass of machinery set in motion by the same number of laborers also increases, in other words, both portions of constant capital increase. An increase in surplus-value, then, is accompanied by a growth of the constant capital, the growing exploitation of labor goes hand in hand with a heightened expenditure of the means of production by which labor is exploited, in other words, a greater investment of capital. The rate of profit is therefore reduced on one side while it increases on the other.
I.V.3

Quite a number of running expenses remain almost or entirely the same, whether the working day is long or short. The cost of supervision is smaller for 500 working men during 18 working hours than for 750 working men during 12 working hours. "The running expenditures of a factory at ten hours of labor are almost as high as at twelve hours." (Report of Factory Inspectors, October, 1848, page 37.) State and municipal taxes, fire insurance, wages of various permanent employes, depreciation of machinery, and various other expenses of a factory, run on just the same, whether the working time is long or short. To the extent that production decreases, these expenses rise as compared to the profit. (Reports of Factory Inspectors, October, 1862, page 19.)
I.V.4

The period in which the value of machinery and of other components of fixed capital is reproduced is practically determined, not by the mere duration of time, but by the duration of the entire labor-process during which it serves and wears out. If the laborers must work 18 hours instead of 12, it makes a difference of three days per week, so that one week is stretched into one and a half, and two years into three. If this overtime is not paid for, then the laborers supply the capitalists not only with the normal surplus-labor without receiving an equivalent, but also give one week out of every three, and one year out of every three, for nothing. In this way the reproduction of the value of the machinery is speeded up by 50% and accomplished in two-thirds of the time which would be ordinarily required.
I.V.5

We start in this analysis, and in that of the fluctuations of the prices of raw materials (chapter VI), from the assumption that the mass and rate of surplus-value are given quantities, in order to avoid useless complications.
I.V.6

We have already shown in our presentation of co-operation, of division of labor and machinery, that economies in the conditions of production, such as are found in production on a large scale, are mainly due to the fact that these conditions are social ones growing out of the combination of labor-processes. The means of production

are worked up by the aggregate laborer, a co-operation of many laborers on an immense scale, instead of by laborers operating in a disconnected way or co-operating at best on a small scale. In a large factory with one or two central motors the cost of these motors does not increase at the same rate as their horse-powers and their resulting extension of activity. The cost of transmission of power does not grow at the same rate as the number of working machines set in motion by it. The frame of any individual machine does not become dearer at the same rate as the number of tools which it employs as its organs. And so forth. The concentration of means of production furthermore saves buildings of various sorts, not only for actual working rooms, but also for storage sheds, etc. It is the same with expenses for fuel, light, etc. Other conditions of production remain the same, whether used by many or by few.
I.V.7

This entire line of economies arising from the concentration of means of production and their use on a large scale has for its fundamental basis the accumulation and co-operation of working people, the social combination of labor. Hence it has its source quite as much in the social nature of labor as the surplus-value considered individually has its source in the surplus-labor of the individual laborer. Even the continual improvements possible and necessary in this line are due solely to the social experiences and observations made in production on a large scale through the combination of social labor.

I.V.8

The same is true of the second great branch of economies in the conditions of production. We refer to the reconversion of the excrements of production, the so-called offal, into new elements of production, either of the same, or of some other line of industry; the processes by which these so-called excrements are thrown back into the cycle of production and consequently of consumption, whether productive or individual. This line of economies, which we shall examine more closely later on, is likewise the result of social labor on a large scale. It is the abundance of these excrements due to large scale production which renders them available for commerce and turns them into new elements of production. It is only as excrements of combined production on a large scale that they become valuable for the productive process as bearers of new exchange-values. These excrements, aside from the services which they perform as new elements of production, reduce the cost of raw material to the extent that they are saleable. For a normal loss is always calculated as a part of the cost of raw material, namely the quantity ordinarily wasted in its consumption. The reduction of the cost of this portion of constant capital increases to that extent the rate of profit, assuming the amount of the variable capital and the rate of surplus-value to be given quantities.

I.V.9

If the surplus-value is given, then the rate of profit can be increased only by a reduction of the value of the constant capital required for the production of commodities. To the extent that the constant capital enters into the production of commodities, it is not its exchange-value, but its use-value, which is taken into consideration. The quantity of labor which the flax can absorb in a spinnery does not depend on its exchange-value, but on its quantity, assuming the degree of productivity of labor, that is to say, the stage of technical development, to be given. In like manner the assistance rendered by a machine to, say, three laborers does not depend on its exchange-value, but on its use-value as a machine. In one stage of technical development a bad machine may be expensive, in another a good machine may be cheap.
I.V.10

The increased profit gathered by a capitalist through the cheapening of such things as cotton, spinning machinery, etc., is the result of a heightened productivity of labor. Of course, this improvement was not introduced in the spinnery, but in the cultivation of cotton and the building of machinery. There it required a smaller expense for the fundamentals of production in order to materialize a certain quantity of labor and secure possession of a certain amount of surplus-labor. This means a reduction of the expense required for the appropriation of a certain quantity of surplus-labor.
I.V.11

We mentioned in the foregoing the savings realized in the process of production by the co-operative use of the means of production by socially combined laborers. Other economies, resulting in the expenditure of constant capital from the shortening of the time of circulation (a result brought about largely by the development of the means of communication) will be discussed later on. At this point we shall mention the economies due to progressive improvements of machinery, namely 1) of its substance, such as iron for wood; 2) the cheapening of machinery by the improvement of methods of manufacture, so that the value of the fixed portion of constant capital, while continually increasing with the development of labor on a large scale, does not grow at the same rate;*12 3) the special improvements enabling the existing machinery to work more cheaply and effectively, for instance, improvements of steam boilers, etc., which will be further discussed later on; 4) the reduction of waste through better machinery.
I.V.12

Whatever reduces the wear of machinery, and of the fixed capital in general, for any given period of production, cheapens not only the individual commodity, seeing that every individual commodity reproduces in its price its share of this wear and tear, but reduces also the aliquot portion of the invested capital for this period. Repair work, etc., to the extent that it becomes necessary, is figured in with

the original cost of the machinery. A reduction of the expense for repairs, due to a greater durability of the machinery, reduces the price of this machinery correspondingly.
I.V.13

It may be said also of these economies, at least of most of them, that they are possible only through the combination of labor and are often not realized until production is carried forward on a still larger scale, so that they are due to an even greater combination of laborers in the direct process of production.
I.V.14

On the other hand, the development of the productive power of labor in any one line of production, for instance in the production of iron, coal, machinery, buildings, etc., which may be in part connected with improvements on the field of intellectual production, especially in natural science and its practical application, appears to be the premise for a reduction of the value, and consequently of the cost, of means of production in other lines of industry, for instance in the textile business or in agriculture. This follows naturally from the fact that a commodity, which issues as a product from a certain line of production, enters into another as a means of production. Its dearness or cheapness depends on the productivity of labor in that line of production from which it issues as a product. Thus it is at the same time a basic condition, not only for the cheapening of commodities

into whose production it enters as a means of production, but also for the reduction of the value of constant capital, whose element it becomes, and thereby for the increase of the rate of profit.
I.V.15

The characteristic feature of this kind of economies in the constant capital due to the progressive development of industry is that the rise in the rate of profit in one line of industry is the result of the increase of the productive power of labor in another. That which the capitalist appropriates in this case is once more a gain which is the product of social labor, although not a product of the laborers directly exploited by him. Such a development of the productive power is traceable in the last instance to the social nature of the labor engaged in production; to the division of labor in society; to the development of intellectual labor, especially of the natural sciences. The capitalist thus appropriates the advantages of the entire system of the division of social labor. It is the development of the productive power of labor in its exterior department, in that department which supplies it with means of production, which relatively lowers the value of the constant capital employed by the capitalist and consequently raises the rate of profit.
I.V.16

Another raise in the rate of profit is produced, not by economies in the labor creating the constant capital, but by economies in the

operation of this capital itself. On one hand, the concentration of laborers, and their co-operation on a large scale, saves constant capital. The same buildings, appliances for fuel and light, etc., cost relatively less for large scale than for small scale production. The same is true of power and working machinery. Although their absolute value increases, it falls relatively in comparison to the growing extension of production and the magnitude of the variable capital, or to the mass of labor-power set in motion. The economy realized by a certain capital within its own line of production is first and foremost an economy in labor, that is to say, a reduction of the paid labor of its own laborers. The previously mentioned economy is distinguished from this one by the fact that it accomplished the greatest possible appropriation of the unpaid labor in other lines in the most economical way, that is to say, with as little expense as a certain scale of production will permit. To the extent that this economy does not rest on the previously mentioned exploitation of the productivity of the social labor employed in the production of constant capital, or in an economy arising from the operation of the constant capital itself, it is due either directly to the co-operation and social nature of labor within a certain line of production, or to the production of machinery, etc., on a scale in which its value does not grow at the same rate as its use-value.

I.V.17

Two points must be kept in view here: First, if the value of c were zero, then p' would be equal to s', and the rate of profit would be at its maximum. In the second place, the most important thing for the direct exploitation of labor is not the exchange-value of the employed means of exploitation, whether they be fixed capital, raw materials or auxiliary substances. In so far as they serve as means to absorb labor, as media in and by which labor and surplus-labor are materialized, the exchange-value of buildings, raw materials, etc., is quite immaterial. That which is ultimately essential is on the one hand the quantity of them technically required for their combination with a certain quantity of living labor, and on the other hand their fitness; in other words, not only the machinery, but also the raw and auxiliary materials must be good. The good quality of the raw material determines in part the rate of profit. Good material leaves less waste. A smaller mass of raw materials is then needed for the absorption of the same quantity of labor. The resistance to be overcome by the working machine is also less. This affects in part even the surplus-value and the rate of surplus-value. The laborer consumes more time with bad raw materials than he would with the same quantity of good material. Wages remaining the same, this implies a reduction of the surplus-labor. Furthermore this affects materially the reproduction and accumulation of capital which depend more on the productivity than on the mass of labor employed, as shown in volume I.
I.V.18

The fanatic hankering of the capitalist after economies in means of production is therefore intelligible. That nothing is lost or wasted, that the means of production are consumed only in the manner required by production itself, depends partly on the skill and intelligence of the laborers, partly on the discipline exerted over them by the capitalist. This discipline will become superfluous under a social system in which the laborers work for their own account, as it has already become practically superfluous in piece-work. This fanatic love of the capitalist for profit is expressed, on the other hand, by the adulteration of the elements of production, which is one of the principal means of reducing the value of the constant capital in comparison with the variable capital, and thus of raising the rate of profit. In addition to this, the sale of these elements of production above their value, so far as this value reappears in the product, plays a considerable role in cheating. This practice plays an essential part particularly in German industry, whose maxim seems to be: People will surely appreciate getting first good samples and then inferior goods from us. However, these matters belong in a discussion of competition, and do not further concern us here.
I.V.19

It should be noted that this raising of the rate of profit by means of a depreciation in the value of the constant capital, in other words, by a reduction of its expensiveness, is entirely independent of the fact whether the line of industry, in which this takes place, produces

articles of luxury, necessities of life for the individual consumption of laborers, or means of production. This circumstance would be of material importance only in the case that it would be a question of the rate of surplus-value, which depends essentially on the value of labor-power, and consequently on the value of the customary necessities of the laborer. But in the present case the surplus-value and the rate of surplus-value have been assumed as given. The proportion of the surplus-value to the total capital, which determines the rate of profit, depends under these circumstances exclusively on the value of the constant capital, and in no way on the use-value of the elements of which this capital is composed.
I.V.20

A relative cheapening of the means of production does not, of course, exclude the absolute increase of their aggregate values. For the absolute scope of their application grows extraordinarily with the development of the productive power of labor and the parallel extension of the scale of production. The economies in the use of constant capital, from whatever point of view they may be considered, are the result, either exclusively of the fact that the means of production serve as co-operative materials for the combined laborers, so that the resulting economies appear as products of the social nature of directly productive labor itself; or, in part, of the fact that the productivity of labor is developed in those spheres which supply capital with means of production, and in that case these economies

present themselves once more as products of the development of the productive forces of social labor, provided only that the total labor is compared with the total capital, and not simply with the laborers employed by the individual capitalist owning this particular constant capital. The difference in this case is merely that the capitalist takes advantage not only of the productivity of labor in his own establishment, but also of that in other establishments. Nevertheless, the capitalist presumes that the economies of his constant capital are wholly independent of his laborers and have nothing at all to do with them. On the other hand, the capitalist is always well aware that the laborer has something to do with the fact whether the employer buys much or little labor with the same amount of money (for this is the form in which this transaction between the laborer and the capitalist appears in the mind of the latter). The economies realized in the application of constant capital, this method of getting a certain result out of the means of production with the smallest possible expense, is regarded more than any other power inherent in labor as a peculiar gift of capital and as a method characteristic of the capitalist mode of production.
I.V.21

This conception is so much less surprising as it seems to be borne out by facts. For the conditions of capitalist production conceal the internal connection of things by the utter indifference, alienation, and

expropriation practiced against the laborer in the matter of the material means in which his labor must be incorporated.
I.V.22

In the first place, the means of production constituting the constant capital represent only the money of the capitalist (just as the body of the Roman debtor represented the money of his creditor, according to Linguet). The laborer comes in contact with them only in the direct process of production, in which he handles them as use-values of production, as instruments of labor and materials of production. The increase or decrease of the value of these things are matters which affect his relation to the capitalist no more than the fact that he may be working up either copper or iron. Occasionally, however, the capitalist likes to profess a different conception of the matter, as we shall indicate later on. He does so whenever the means of production become dearer and thereby reduce his rate of profit.
I.V.23

In the second place, so far as these means of production in the capitalist process of labor are at the same time means of exploiting labor, the laborer is no more concerned in the relative dearness or cheapness of these means of exploitation than a horse is concerned in the dearness or cheapness of the bit and bridle by which it is steered.
I.V.24

In the third place, we have seen previously that the social nature of labor, the combination of the labor of a certain individual laborer with that of other laborers for a common purpose, stands opposed to that laborer and his comrades as a foreign power, as the property of a stranger which he would not care particularly to save if he were not compelled to economize with it. It is entirely different in the factories owned by the laborers themselves, for instance, in Rochdale.
I.V.25

It requires hardly any special mention, then, that the general interconnection of social labor, so far as it expresses the productivity of labor in one line of industry by a cheapening and improvement of the means of production in another line, and thereby a raising of the rate of profit, affects the laborers as a matter foreign to them and concerning only the capitalists, since they are the ones who buy and own these means of production. The fact that the capitalist buys the product of the laborers of another line of industry with the product of the laborers in his own line, and that he disposes of the product of the laborers of another capitalist by virtue of having appropriated the unpaid products of his own laborers, is mercifully concealed for him by the process of circulation and its attending circumstances.
I.V.26

This state of things is further complicated by the fact that these economies in the employment of constant capital assume the guise of being due to the peculiar nature of the capitalist mode of production, and to the special function of the capitalist in particular. The thirst for profits and the demands of competition tend toward the greatest possible cheapening of the production of commodities, just as production on a large scale first develops in its capitalistic form.
I.V.27

Capitalist production promotes on the one hand the development of the productive powers of social labor, and on the other it enforces economies in the employment of constant capital.
I.V.28

However, capitalist production does not stop at the alienation and expropriation of the laborer, the bearer of living labor, from his interest in the economical, that is to say, rational and thrifty, use of the material requirements of his labor. In conformity with its contradictory and antagonistic nature, capitalist production proceeds to add to the economies in the use of constant capital, and thus to the means of increasing the rate of profit, a prodigality in the use of the life and health of the laborer himself.
I.V.29

Since the laborer passes the greater portion of his life in the process of production, the conditions of this productive process constitute the greater part of the fundamental conditions of his vital activity, his requirements of life. Economies in these requirements constitute a method of raising the rate of profit, just as we observed on previous occasions that overwork, the transformation of the laborers into laboring cattle, constitutes a means of self-expanding capital, of speeding up the production of surplus-value. Such economies are: The overcrowding of narrow and unsanitary rooms with laborers, or, in the language of the capitalist, a saving in buildings; a crowding of dangerous machinery into one and the same room without means of protection against this danger; a neglect of precautions in productive processes which are dangerous to health or life, such as mining, etc.; not to mention the absence of all provisions to render the process of production human, agreeable, or even bearable, for the laborer. From the capitalist point of view, such measures would be quite useless and senseless. No matter how economical capitalist production may be in other respects, it is utterly prodigal with human life. And its saving in one direction is offset by a waste in another, owing to the distribution of its products through trade and the competitive method. Capitalism loses on one side for society what it gains on another for the individual capitalist.

I.V.30

Just as capital endeavors to reduce the direct application of living labor to necessary labor, and to abbreviate the labor required for the production of any commodity by the exploitation of the social productiveness of labor and thus to use as little living labor as possible, so it has also the tendency to apply this minimized labor under the most economical conditions, that is to say, to reduce the value of the employed constant capital to its minimum. While the value of commodities is determined by the necessary labor-time contained in them, not by all of the labor-time incorporated in them, it is the capital which gives reality to this determination and at the same time reduces continually the labor-time socially necessary for the production of a certain commodity. The price of that commodity is thereby lowered to its minimum, since every portion of the labor required for its production is reduced to its minimum.
I.V.31

It is necessary to make a distinction in the economies realized in the employment of constant capital. If the mass, and consequently the amount of the value, of the employed capital increases, it means primarily a concentration of more capital in one hand. Now, it is precisesly this greater mass in one hand, going hand in hand, as a rule, with an absolute increase but relative decrease of the number of employed laborers, which permits economies in constant capital. From the point of view of the individual capitalist the volume of the necessary investment of capital, especially of its fixed portion,

increases. But compared to the mass of the worked-up materials and of the exploited labor the value of the invested capital relatively decreases.
I.V.32

This will now be briefly illustrated by a few examples. We begin at the end, with economies in the conditions of production which are at the same time the living conditions of the laborer.

II. Economies in the conditions of labor at the expense of the laborers.
Coal Mines. Neglect of the most indispensable Expenditures.

I.V.33

"Owing to the competition between the proprietors of coal mines, expenses are kept down to the minimum required for overcoming the most palpable physical difficulties; and owing to the competition among the miners, whose numbers generally exceed the demand, they are glad to expose themselves to considerable danger and to the most injurious influences for a wage which is little above that of the day laborers in the neighboring country districts, more especially since mining permits them to utilize their children profitably. This double competition is fully sufficient…to effect the operation of a large portion of the mines with the most imperfect drainage and ventilation; very

often with badly built shafts, bad piping, incapable machinists, with badly planned and badly constructed galleries and tracks and this causes a destruction of life, limb, and health, the statistics of which would present an appalling picture." (First Report on Children's Employment in Mines and Collieries, etc., April 21, 1829, page 129.) About 1860, the average of fatal accidents in the English collieries amounted to 15 men per week. According to the report on Coal Mines Accidents (February 6, 1862), the total deaths from accidents during the ten years from 1852-61 amounted to 8,466. But the report itself admits that this number is far too low, because in the first years, when the inspectors had just been installed and their districts were far too large, a great many accidents and deaths were not reported. The very fact that the number of accidents has decreased since the installation of the inspectors, in spite of their insufficient numbers and limited powers, shows the natural tendencies of capitalist production. Still the number of the killed is very large. These sacrifices of human beings are mostly due to the groveling greed of the mine owners. Very often they had only one shaft dug, so that there was not only no effective ventilation but also no escape if this shaft became clogged.

I.V.34

Looking upon capitalist production in its details, aside from the process of circulation and the excrescences of competition, we find that it is very economical with materialized labor incorporated in commodities.

But it is more than any other mode of production prodigal with human lives, with living labor, wasting not only blood and flesh, but also nerves and brains. Indeed, it is only by dint of the most extravagant waste of individual development that human development is safeguarded and advanced in that epoch of history which immediately precedes the conscious reorganisation of society. Since all the economies here mentioned arise from the social nature of labor, it is just this social character of labor which causes this waste of the lives and health of the laborers. The following question suggested by factory inspector B. Baker is characteristic in this respect: "The whole question is one for serious consideration, in what way this sacrifice of infant life occasioned by congregational labor can be averted?" (Report Fact., October 1863, page 157.)
I.V.35

Factories. Under this head belongs the disregard for all precautions for the security, comfort, and health of the laborers, also in the factories. A large portion of the bulletins of casualties enumerating the wounded and slain of the industrial army belong here (see the annual factory reports). Furthermore lack of space, ventilation, etc.
I.V.36

As late as October, 1855, Leonard Horner complained about the resistance of numerous manufacturers against the legal requirements concerning protective appliances on horizontal shafts, although the

dangerous character of these shafts was continually proved by accidents, many of them fatal, and although the appliance for protection against this danger was neither expensive nor interfered with the work. (Rep. Fact., October, 1855, page 6.) In their resistance against this and other legal requirements, the manufacturers are ably seconded by the unpaid justices of the peace, who are themselves manufacturers or their friends, and who render their verdicts accordingly. What sort of verdicts those gentlemen rendered was revealed by Superior Judge Campbell, who said with reference to one of them, against which an appeal was made to him: "This is not an interpretation of an act of parliament, it is simply its abolition." (L. c., page 11.) Horner says in the same report that in many factories machinery is started up without warning the laborers. Since there is always something to look after, even when the machinery is at a standstill, there are always many hands and fingers busy on it, and accidents happen continually from the omission of a mere signal. (L. c., page 44.) The manufacturers of that period had formed a union opposing the factory legislation, the so-called "National Association for the Amendment of the Factory Laws" in Manchester, which collected, in March, 1855, more than 50,000 p.st. by an assessment of 2 shillings per horse-power. This sum was to pay for lawsuits of the members of the association against court proceedings instigated by factory inspectors, all cases of this kind being fought by the union. The issue was to prove that killing is no murder when done for profit. The factory inspector for Scotland, Sir John Kincaid, relates of a

certain firm in Glasgow that it used the old iron of its factory to make protective appliances for all its machinery, the cost being 9 p.st. 1 shilling. If this firm had joined the manufacturers' union, it would have had to pay an assessment of 11 p.st. on its 110 horse powers. This would have been more than the cost of all its protective appliances. But the National Association had been organized in 1854 for the express purpose of opposing the law which prescribed such protection. The manufacturers had paid no attention whatever to this law during all the time from 1844 to 1854. At the instruction of Palmerston the factory inspectors then informed the manufacturers that the law would hence-forth be enforced. The manufacturers immediately founded their union. Many of its most prominent members were justices of the peace who were supposed to carry out this law. When the new Minister of the Interior, Sir George Grey, offered a compromise, in April, 1855, to the effect that the government would be content with practically nominal appliances for protection, the Association declined even this, with indignation. In various lawsuits, the famous engineer Thomas Fairbairn permitted the manufacturers to throw the weight of his name into the scale in favor of economies and in defense of the violated liberty of capital. The chief of factory inspectors, Leonard Horner, was persecuted and maligned by the manufacturers in every conceivable manner.

I.V.37

But the manufacturers did not rest until they had obtained a writ of the Queen's Bench, which interpreted the Law of 1844 to the effect that no protective appliances were prescribed for horizontal shafts installed more than seven feet above the ground. And finally they succeeded in 1856 in securing an act of parliament entirely satisfactory to them, by the help of the hypocrite Wilson Patten, one of those pious souls whose ostentatious religion is always ready to do dirty work for the knights of the money-bag. This act practically deprived the laborers of all special protection and referred them to the common courts for the recovery of damages in cases of accident by machinery (which amounted practically to a mockery, on account of the excessive cost of lawsuits). On the other hand, this act made it almost impossible for the manufacturers to lose a lawsuit, by providing in a very nicely worded clause for expert testimony. As a result, the accidents increased rapidly. In the six months from May to October, 1858, Inspector Baker reported an increase of accidents exceeding that of the preceding six months by 21%. He was of the opinion that 36.7% of these accidents might have been avoided. It is true, that the number of accidents in 1858 and 1859 was considerably below that of 1845 and 1846. It was 29% less, although the number of laborers had increased by 20% in the industries subject to inspection. But what was the reason for this? So far as the moot question was settled in 1865, it was due mainly to the introduction of new machinery which was provided with protective appliances from the start and to which the manufacturer did not object because they

required no extra expense. A few laborers had also succeeded in securing heavy damages for their lost arms and having this sentence upheld even by the highest courts. (Rep. Fact., April 30, 1861, page 31, and April 1862, page 17.)
I.V.38

This may suffice to illustrate the economies in appliances by which life and limb of laborers (also children) are to be protected against dangers arising in the handling and operating of machinery.
I.V.39

Work in Closed Rooms. It is well known to what extent economies of space, and thus of buildings, crowd the laborers into narrow rooms. This is intensified by economies in appliances for ventilation. These two economies, coupled with an increase of the labor time, produce a large increase in the diseases of the respiratory organs, and consequently an increase of mortality. The following illustrations have been taken from the Reports on Public Health, 6th report, 1863. This report was compiled by Dr. John Simon, well-known from our volume I.
I.V.40

Just as the combination of co-operative labor permits the operation of machinery on a large scale, the concentration of means of production, and economies in their employment, so it is the co-operation of large

numbers of laborers in closed rooms and under conditions determined by the ease of manufacture, not by the health of the laborer, which is on the one hand the source of increased profits for the capitalist and on the other the cause of the waste of the lives and health of the laborers, unless it is counteracted by a reduction of the hours of labor and by special precautions.
I.V.41

Dr. Simon formulates the following rule and backs it up with abundant statistics: "To the extent that the population of a certain district is made dependent upon co-operative labor in close rooms, to the same extent, other conditions remaining the same, increases the rate of mortality in that district through pulmonary diseases." (Page 23.) The cause of this is bad ventilation. "And there is probably in all England not a single exception from the rule that in every district, which has an important industry carried on in closed rooms, the increased mortality of its laborers suffices to color the mortality statistics of the entire district with a decided excess of pulmonary diseases." (Page 24.)
I.V.42

The mortality statistics of industries carried on in closed rooms, as examined by the Board of Health in 1860 and 1861, show the following facts: The same number of men between the ages of 15 and 55, having a rate of 100 deaths from consumption and other

pulmonary diseases in English agricultural districts, has a rate of 163 deaths from consumption in Coventry, 167 in Blackburn and Skipton, 168 in Congleton and Bradford, 171 in Leicester, 182 in Leek, 184 in Macclesfield, 190 in Bolton, 192 in Nottingham, 193 in Rochdale, 198 in Derby, 203 in Salford and Ashton-under Lyne, 218 in Leeds, 220 in Preston, and 263 in Manchester. (Page 24.) The following table gives a still more convincing illustration.

Table. Click to enlarge in new window.

It shows the deaths from pulmonary diseases separately for both sexes, between the ages of 15 to 25, computed on every 100,000. The districts selected are those in which only the women are employed in the industry carried on in closed rooms, while the men are employed in all possible lines of work.
I.V.43

In the districts with silk-industries, in which the participation of men in factory work is greater, their death-rate is also higher. The death rate from consumption, etc., in both sexes reveals, according to the report, the atrocious sanitary conditions under which a large portion of our silk-industry is carried on." And this is the same silk-industry whose manufacturers, boasting of the exceptionally favorable and sanitary conditions in their establishments, demanded an exceptionally long

labor-time for children under 13 years of age, and were granted permission in several instances. (Volume I, chapter X, 6.)
I.V.44

"None of the hitherto investigated industries will have presented a worse picture than that given by Dr. Smith of tailoring. The work rooms, he says, differ considerably in the matter of sanitation; but nearly all of them are overcrowded, badly ventilated, and to a high degree injurious to health...Such rooms are necessarily hot, as it is; but if the gas is lighted, for instance during a fog in the daytime, or in winter in the evening, the heat rises to 80 or even 90 degrees Fahrenheit (27 to 33 degrees C.) and causes a dripping perspiration and a precipitation of vapor on the glass panes, so that water is continually trickling down or dropping down from the skylight, and the laborers are compelled to keep some windows open, although they inevitably catch cold thereby.'He gives the following description of 16 of the most important shops of the West end of London: The largest cubic space alloted in these badly ventilated rooms to one laborer is 270 cubic feet; the smallest is 105 feet, the average being 156 feet per man. In a certain shop, which has a gallery running all around its sides and which receives light only from above, from 92 to 100 people are employed and a large number of gas jets lighted; the toilets are next door, and the room does not give above 150 cubic feet to each man. In another shop, which can be called only a dog kennel in a yard lighted from above and which can be ventilated only

by one small window in the roof, from 5 to 6 people work in a room of 112 cubic feet per man." And "in these atrocious work rooms, described by Dr. Smith, the tailors work generally from 12 to 13 hours per day, and at certain periods work is continued for 14 to 16 hours." (Pages 25, 26, 28.)

Table. Click to enlarge in new window.

(Page 30.) It must be noted, and has in fact been noted by John Simon, the chief of the Medical Department, who issued the report, that the mortality of the tailors, typesetters, and printers of London, for the ages from 25 to 35 years, has been reported too low, because the London employers in both lines have a large number of young people (probably up to 30 years of age) from the country engaged as apprentices and "improvers," that is to say, men who are being trained. These increase the number of employed on which the deathrates of London are computed. But they do not contribute at the same rate to the number of deaths in London, because their stay there is only temporary. If they get sick during this period, they return to their homes in the country to get well, and if they die there, they are registered in their own district. This fact affects the earlier ages still more and renders the death-rate figures of London for these ages completely valueless as standards of industrial violations of sanitary laws. (Page 30.)
I.V.45

The case of the typesetters is similar to that of the tailors. In addition to lack of ventilation, poisoned air, etc., their condition is aggravated by night-work. Their regular working time lasts from 12 to 13 hours, sometimes from 15 to 16. "Great heat and suffocating air as soon as the gas is lighted....It is not a rare occurrence that the fumes of a foundry, or the smell of machinery or of cesspools, rise from lower floors and aggravate the evils of the upper floors. The hot air of the lower rooms heats the upper ones by warming the floors, and if the rooms are low and much gas is burned in them, it is a great nuisance. It is still worse in places where steam engines are installed in the lower rooms and fill the whole house with undesirable heat...In general it may be said that the ventilation is defective throughout and totally insufficient to remove the heat and the products of combustion of the gas after sundown, and that conditions in many shops, especially if they were formerly living rooms, are most deplorable." In some shops, particularly for weekly papers, where boys of 12 to 16 years are also employed, work is carried on almost uninterruptedly for two days and one night; while in other printing shops, which make a specialty of job work, the laborer does not get a rest even on Sunday, so that his days of work are 7 instead of 6 per week. (Page 26, 28.)

I.V.46

The milliners and dress makers occupied our attention also in volume I, chapter X, 3, so far as overwork was concerned. Their work rooms are described in the present report by Dr. Ord. Even if they are better during the day, they become overheated, foul, and unhealthy during the hours in which gas is burned. Dr. Ord found in 34 shops of the better sort that the average number of cubic feet per worker was as follows: "In four cases more than 500; in four other cases 400-500; in five cases 200-250; in four cases 150-200; and finally in nine cases only 100-150. Even the most favorable of these cases barely suffices for continued work, when the room is not perfectly ventilated...Even with good ventilation the workshops become very hot and stuffy after dark on account of the many gas jets needed." And here follows a remark of Dr. Ord concerning one of the minor workshops operated for the account of a middleman: "One room, containing 1,280 cubic feet; persons present, 14; space for every person, 91.5 cubic feet. The girls looked haggard and neglected. There wages were said to be from 7 to 15 sh. per week, aside from tea...The hours of labor from 8 A. M. to 8 P. M. The small room, in which these 14 persons were crowded together, was badly ventilated. There were two movable windows and a fireplace, which was, however, closed. There were no special appliances of any kind for ventilation." (Page 27).

I.V.47

The same report states with reference to the overwork of the milliners and dress makers: "The overworking of young women in fashionable millinery stores prevails only for about 4 months in that monstrous degree which has elicited on many occasions the momentary surprise and indignation of the public. But during these months work is as a rule continued in the shop for fully 14 hours per day, and on accumulated rush-orders for days from 17 to 18 hours." In other seasons work in the shop is carried on probably for 10 to 14 hours; those working at home are regularly engaged for 12 to 13 hours. In the making of ladies' cloaks, capes, shirts, etc., including work with a sewing machine, the hours passed in the common work room are fewer, generally not more than 10 to 12, but, says Dr. Ord, "the regular hours of labor in certain houses, at various times, are subject to considerable extension by means of extra paid overtime, and in others work is taken home in order to be finished after the regular working time. We may add that either one of these methods of over-work is often compulsory." (Page 28). John Simons remarks in a footnote to this page: "Mr. Redcliffe, the secretary of the Epidemiological Society, who had especially frequent opportunities to examine the health of milliners and dressmakers of the first firms, found among 20 girls who said of themselves that they were "quite well" only one in good health; the others showed different degrees of physical exhaustion, nervous debility, and numerous functional troubles arising therefrom. He names as causes, in the first instance, the length of the working hours, which he estimates at a minimum of 12

hours per day even in the dull season, and secondly, 'overcrowding and bad ventilation of workrooms, air poisoned by gas lights, insufficient or bad food, and lack of provision for domestic comfort.'" I.V.48

The conclusion at which the chief of the English Board of Health arrived, is that "it is practically impossible for laborers to insist on that which is theoretically their first sanitary right: the right of having their common labor freed from all needless conditions injurious to health, so far as may lie in the power of their employer, and at his expense, whatever may be the work to be accomplished by them for their employer. And while the laborers themselves are actually not in a position to enforce this sanitary justice, neither can they expect any effective assistance from the officials responsible for the enforcement of the Nuisance Removal Acts, in spite of the presumable intention of the legislator." (Page 29.)‘"There will no doubt be some small technical difficulties in the way of determining the lowest limit where the employers shall be subject to regulation. But...in principle the claim to the protection of health is universal. And in the interest of myriads of working men and working women, whose lives are needlessly stunted and shortened by the infinite physical ills caused by their occupations, I venture to express the hope that the sanitary conditions of labor will just as universally be placed under fitting legal protection; at least sufficiently to safeguard an effective ventilation of all closed work rooms, and to restrict as much as possible the

particular unsanitary influences naturally inherent in every dangerous line of industry." (Page 63.)

III. Economies in the Generation of Power, Transmission of Power, and Buildings.

I.V.49

In his report for October, 1852, L. Horner quotes a letter of the famous engineer James Nasmyth of Patricrofit, the inventor of the steam hammer, which contains substantially the following statements. I.V.50

The public is little acquainted with the immense increase of motive power obtained through such changes of system and improvements (of steam engines) as he is mentioning. The machine power of the district of Lancashire was for almost forty years under the pressure of timid and prejudiced traditions. But now the engineers have been happily emancipated. During the last 15 years, but particularly in the course of the last 4 years (since 1848) a few important changes have taken place in the operation of condense steam engines. The result was that the same machines accomplished far more work, and that the consumption of coal was considerably decreased at the same time. For many years, since the introduction of steam power in the factories of this district, the velocity which was considered safe for condense

steam engines, was about 220 feet of piston lift per minute, that is to say, a machine with a piston lift of 5 feet was limited by regulation to 22 revolutions of the shaft. It was not considered appropriate to drive the machine faster. And since the entire installation was adapted to this velocity of 220 feet of piston lift per minute, this slow and senselessly restricted motion prevailed in the factories for many years. But finally, either through a lucky unfamiliarity with this regulation, or for better reasons of some daring innovator, a greater velocity was tried, and, since the result was very favorable, this example was followed by others. The machine was given full rein, as the saying was, and the main wheels of the transmission gear were changed in such a way that the steam engine could make 300 feet per minute and more, while the machinery was kept at its former speed. This acceleration of the steam engine had become general, because it had been demonstrated that more available power was gained from the same machine, and that the movements were much more regular on account of the greater impetus of the driving wheel. The same steam pressure and the same vacuum in the condenser produced more power by means of a simple acceleration of the piston lift. For instance, if by appropriate changes we can accomplish that a machine yielding 40 horse power with 200 feet per minute makes 400 feet with the same steam pressure and vacuum, we shall secure exactly double that power, and since the steam pressure and the vacuum are the same in both cases, the strain on the various individual parts of the machine, and thus the danger of accidents, will not materially

increase with an increase of speed. The whole difference is that we consume more steam in comparison to the accelerated movement of the piston, or at least approximately so; and furthermore, there is a somewhat more rapid wear of the bearings, or friction parts, but this is hardly worth mentioning. But in order to obtain more power with the same machine by speeding up the piston, more coal must be burned under the same steam boiler, or a boiler of a larger volume of evaporation must be employed, in short, more steam must be generated. This was accomplished, and boilers with a greater volume were installed with the old "accelerated" machines. These accomplished consequently as much as 100% more work. About 1842, the extraordinarily cheap generation of power with steam engines in the mines of Cornwall began to attract attention. The competition in cotton spinning compelled the manufacturers to seek the main source of their profits in economies. The remarkable difference in the consumption of coal per hour and horse-power shown by the Cornish machines, and likewise the extraordinarily economical performances of the Woolf Double Cylinder Machines, brought the question of fuel into the foreground, also in Nasmyth's district. The Cornish and the double cylinder machines furnished one horse-power per hour for every 3½ or 4 pounds of coal, while the machines in the cotton districts generally consumed 8 or 12 pounds per horse-power an hour. Such a marked difference induced the manufacturers and machine builders of Nasmyth's district to accomplish by similar means just such extraordinary economies as were then the rule in Cornwall and France,

where the high prices of coal had compelled the manufacturers to restrict this expensive branch of their business as much as possible. This led to some very important results. In the first place, many boilers, one-half of whose surface remained exposed to the cold outer air in the time of high profits, were then covered with thick layers of felt, or bricks and mortar, and other material, by which the radiation of the heat, which had been generated at such high cost, was prevented. Steam pipes were protected in the same way, and the cylinders were also surrounded by felt and wood. In the second place, high pressure came into use. Hitherto the safety-valve had been weighted only so slightly that it opened at 4, 6, or 8 pounds of steam pressure per square inch. Then it was discovered that considerable coal could be saved by raising the pressure to 14 or 20 pounds. In other words, the work of a factory was accomplished by a considerably lower consumption of coal. Those who had the means and the enterprise carried the system of increased pressure to its full extension and employed judiciously constructed steam-boilers, which furnished steam at a pressure of 30, 40, 60, or 70 pounds per square inch, which would have scared an engineer of the old school to death. But as the economic result of this increased steam-pressure soon made itself felt in the unmistakable form of so many pounds sterling, shillings, and pence, the high pressure boilers for condensing machines became very common. Those who carried out the reform radically used the Woolf machines, and this took place in most of the recently built machines. These were the Woolf machines with two cylinders, in

one of which the steam from the boiler furnishes power by means of the excess of pressure over that of the atmosphere, whereupon, instead of escaping as formerly after each stroke of the piston into the open air, it passes into a low pressure cylinder of about four times the volume of the other and, after accomplishing there some more expansion, goes to the condenser. The economic result obtained by such a machine is the performance of one horse-power per hour for every 3½ or 4 pounds of coal, while the machines of the old style required from 12 to 14 pounds for this purpose. A clever device permitted the adaption of the Woolf system with double cylinders, that is to say, the high and low pressure machine, to already existing machines and thus the increase of their performance and at the same time a reduction in the consumption of coal. The same result was obtained during the last 8 or 10 years by a combination of a high pressure machine with a condensing machine in such a way that the steam used in the former passed into the latter and drove it. This system is useful for many purposes. It would not be easily possible to obtain any accurate statistics of the increased performances of the same identical steam-engines supplied with some or all of these new improvements. But it is certain that the same weight of steam machinery now performs 50% more service on an average, and that in many cases the same steam-engine, which yielded 50 horse-powers at the time of the limited speed of 220 feet per minute, yields now more than 100 horse-powers. The highly economical results of the employment of high pressure steam in condensing machines, and the

far greater demands made upon the old machines for the purposes of business expansion, have led in the last three years to the introduction of pipe boilers, by which the cost of steam generation is again considerably reduced. (Rep. Fact., Oct., 1852, pages 23 to 27.)
I.V.51

What applies to power generating, also applies to power transmitting and working machinery. According to Redgrave's report, on page 58 of the above-cited document, the rapid steps made in the development of improvements in machinery during the last years have enabled the manufacturers to expand production without additional motive power. The more economical employment of labor has become necessary through the shortening of the working day, and in most well-managed factories means are always considered by which production may be increased, and expenses decreased. Redgrave has before him a calculation, which he owes to the courtesy of a very intelligent gentleman in his district, referring to the number and age of the laborers employed in his factory, the machines operated in it, and the wages paid from 1840 to date. In October, 1840, his firm employed 600 laborers, of whom 200 were less than 13 years old. In October, 1852, they employed only 350 laborers, of whom only 60 were less than 13 years old. The same number of machines, with very few exceptions, were in operation, and the same amounts were paid in wages, in both years...
I.V.52

These improvements of machinery do not show their full effects until they are used in new and judiciously built factories.
I.V.53

According to the testimony of a cotton spinner in the factory reports for 1863, page 110, great progress has been made in the building of factories in which such improved machinery is to be installed. In the basement of his factory he twines all his yarn, and for this purpose alone he installs 29,000 doubling spindles. In this room and in the shed alone he saves at least 10% in labor. This is not so much the result of improvements in the doubling system, as of the concentration of machinery under one gearing. He can drive the same number of spindles with one single driving shaft, and thus he saves from 60 to 80% for gearing as compared to other firms. This furthermore results in a great saving of oil, grease, etc. In short, with perfected installations in his factory and improved machinery he had saved at least 10% in labor, not to mention great economies in power, coal, oil, grease, transmission belts and shafts.

IV. Utilisation of the Excrements of Production.

I.V.54

With the advance of capitalist production the utilisation of the excrements of production and consumption is extended. We mean by the former the refuse of industry and agriculture, and by the latter either the excrements, such as issue from the natural circulation of matter in the human body, or the form in which objects of consumption are left after being used. Excrements of production, for instance in chemical industries, are such by-products as are wasted in production on a smaller scale; iron filings collected in the manufacture of machinery and carried back into the production of iron as raw material, etc. Excrements of consumption are the natural discharges of human beings, remains of clothing in the form of rags, etc. The excrements of consumption have the most value for agriculture. So far as their utilisation is concerned, the capitalist mode of production wastes them in enormous quantities. In London, for instance, they find no better use for the excrements of four and a half million human beings than to contaminate the Thames with it at heavy expense.
I.V.55

The raising of the price of raw materials naturally leads to the utilisation of waste products.
I.V.56

The general requirements for the re-employment of these excrements are: A great quantity of such excrements, such as is only the result of production on a large scale; improvements in machinery by which

substances formerly useless in their prevailing form are given another useful in reproduction; progress of science, especially of chemistry, which discovers the useful qualities of such waste. It is true, that great economies of this sort are also observed in small agriculture carried on like gardening, for instance in Lombardy, southern China, and Japan. But on the whole the productivity of agriculture under this system is obtained by great prodigality in human labor-power, which is drawn from other spheres of production.
I.V.57

The so-called waste plays an important role in almost every industry. The factory report for December, 1863, mentions as one of the principal reasons why farmers in many parts of England and Ireland do not like to grow flax, or do so but rarely, the great waste occurring in the preparation of flax by small scutch-mills driven by water. The waste is relatively small in cotton, but very considerable in flax. Good treatment in soaking and mechanical scutching may reduce this disadvantage considerably. In Ireland flax is frequently scutched in a very slovenly manner, so that from 28 to 30% are lost. All this might be avoided by the use of better machinery. So much tow fell by the side in the preparation of flax that the factory inspector reports having heard it said of some of the scutching mills in Ireland that the laborers carry the waste home and burn it in their fire-places, although it is very valuable. (Page 140 of the above report.)

We shall speak of cotton later, in discussing the fluctuations of prices of raw materials.
I.V.58

The wool industry was carried on more intelligently than the preparation of flax. The same report states on page 107 that it was formerly the custom to veto the preparation of waste wool and woolen rags for renewed use, but this prejudice has been entirely dropped so far as the shoddy trade is concerned, which has become an important branch of the wool district of Yorkshire. It is doubtless expected that the trade with cotton waste will soon occupy the same rank as a line of business meeting a long felt want. Thirty years previous to 1863, woolen rags, that is to say pieces of all-wool cloth, etc., were worth on an average about 4 p.st. 4 sh. per ton. But a few years before 1863 they had become worth as much as 44 p.st. per ton. And the demand for them had risen to such an extent that mixed stuffs of wool and cotton were also used, means having been found to destroy the cotton without injuring the wool. And thousands of laborers were employed in 1863 in the manufacture of shoddy, and the consumer benefited thereby, being enabled to buy cloth of good quality at very reasonable prices. The shoddy so rejuvenated constituted in 1862 as much as one-third of the entire consumption of wool in English industry, according to the factory report of October, 1862, page 81. The truth about the "benefit" for the "consumer" is that his shoddy clothes wear out in one-third of the time which good

woolen clothes used to last, and become threadbare in one-sixth of this time.
I.V.59

The English silk industry moved on the same inclined plane. From 1839 to 1862 the consumption of genuine raw silk had somewhat decreased, while that of silk waste had doubled. By the help of improved machinery it was possible to make this otherwise rather worthless stuff into a silk useful for many purposes.
I.V.60

The most striking instance of the utilisation of waste was furnished by the chemical industry. It utilises not only its own waste in new ways, but also that of many other industries. For instance it converts the formerly almost useless gas-tar into aniline colors, alizarin, and more recently even into drugs.
I.V.61

This economy through the re-employment of excrements of production must be distinguished from economies through the prevention of waste, that is to say, the reduction of excrements of production to a minimum and the maximum utilisation at first hand of all raw and auxiliary materials required in production.
I.V.62

The reduction of waste depends in part on the quality of the machinery in use. Oil, soap, etc., are saved to the extent that the parts of a machine are constructed accurately and polished. This refers to auxiliary materials. In part, however, and this is the most important part, it depends on the quality of the employed machines and tools whether a large or small portion of raw material is converted into waste in the process of production. Finally it depends on the quality of the raw material itself. This in turn is conditioned on the development of the extract industry and agriculture producing the raw material (the progress of civilisation strictly so called), and on the improvement of processes through which the raw materials pass before their entry into manufacture.
I.V.63

"Parmentier proved that the art of grinding grain was very materially improved in France in recent times, for instance since the time of Louis XIV, so that the new mills, compared to the old, can make as high as twice as much bread from the same amount of grain. In fact, the annual consumption of an inhabitant of Paris was at first placed at 4 setiers of grain, then at 3, finally at 2, while nowadays it is only 1½ setier, or about 342 lbs. per capita....In the Perche, in which I lived for a long time, the crude mills of granite and trap rock have been rebuilt according to the rules of advanced mechanics as understood for the last 30 years. They have been provided with good mill stones from La Ferté, the grain has been ground twice, the

milling sack has been given a circular motion, and the output of flour has increased by one-sixth for the same amount of grain. I can easily explain the enormous discrepancy between the daily consumption of grain among the Romans and among us. It is due simply to the imperfect method of milling and bread making. In this connection I must explain a peculiar fact mentioned by Pliny, XVIII, c. 20, 2:...'The flour was sold in Rome, according to quality, at 40, 48, or 96 as per modius.' These prices, so high in proportion to the contemporaneous prices of grain, are due to the imperfect state of the mills of that period, and the resulting heavy cost of milling." (Dureau de la Malle, Economie Politique des Romains. Paris, 1840, I, page 280.)

V. Economies Due to Inventions.

I.V.64

These economies in the utilisation of fixed capital, we repeat, are due to the application of the requirements of labor on a large scale, in short, are due to the fact that these requirements serve as the first conditions of direct co-operative and social production, a co-operation within the primary process of production. On the one hand, this is the indispensable requirement for the application of mechanical and chemical inventions without increasing the price of commodities, and this is always the first consideration. On the other hand, only production on a large scale permits those economies which are

derived from co-operative productive consumption. Finally, it is only the experience of combined laborers which discovers the where and how of economies, the simplest methods of applying the experience gained, the way to overcome practical frictions in carrying out theories, etc.
I.V.65

Incidentally it should be noted that there is a difference between universal labor and co-operative labor. Both kinds play their role in the process of production, both flow one into the other, but both are also differentiated. Universal labor is scientific labor, such as discoveries and inventions. This labor is conditioned on the co-operation of living fellow-beings and on the labors of those who have gone before. Co-operative labor, on the other hand, is a direct co-operation of living individuals.
I.V.66

The foregoing is corroborated by frequent observation, to-wit:
I.V.67

1) The great difference in the cost of the first building of a new machine and that of its reproduction, on which see Ure and Babbage.
I.V.68

2) The far greater cost of operating an establishment based on a new invention as compared to later establishments arising out of the ruins of the first one, as it were. This is carried to such an extent that the first leaders in a new enterprise are generally bankrupted, and only those who later buy the buildings, machinery, etc., cheaper, make money out of it. It is, therefore, generally the most worthless and miserable sort of money-capitalists who draw the greatest benefits out of the universal labor of the human mind and its co-operative application in society.

Notes for this chapter

11.
Since in all factories a very large amount of fixed capital is invested in buildings and machinery, the gains will be so much larger the greater the number of hours during which this machinery can be kept employed." (Reports of Factory Inspectors, October 31, 1858, p. 8.)
12.
See Ure on the progress in factory construction.

Part I,

Volume III Chapter VI THE EFFECT OF FLUCTUATIONS IN PRICE.

I. Fluctuations in the Price of Raw Materials, and their Direct Effects on the Rate of Profit.

I.VI.1

THE assumption in this case, as in previous ones, is that no change takes place in the rate of surplus-value. This assumption is necessary in order that this case may be analysed in its pure state. However, it would be possible that a certain capital, whose rate of surplus-value remains unchanged, might employ an increasing or decreasing number of laborers, in consequence of contraction or expansion caused by fluctuations in the price of raw materials such as we are about to analyse here. In that case, the mass of surplus-value might vary, while the rate of surplus-value remained the same. Still, it will be convenient to set aside also such a case as a side-issue. If improvements of machinery and changes in the price of raw materials simultaneously influence either the number of laborers employed by a certain capital, or the level of wages, one has but to tabulate 1) the effect caused by the variations of constant capital in the rate of profit, and 2) the effect caused by variations in wages on the rate of profit. The result then becomes apparent of itself.

I.VI.2

But in general, it should be noted here, as in previous cases: If variations take place, either in consequence of economies in the

constant capital, or in consequence of fluctuations in the price of raw materials, they always affect the rate of profit, even though they may leave the wages, and therefore the mass and rate of surplus-value, untouched. They change the magnitude of the C in s' v/C, and thus the value of the whole fraction. It is therefore immaterial, in this case, in contradistinction to what we found to be the case in our analysis of surplus-value, in which sphere of production these variations take place, whether the lines of production affected by them produce articles of food for laborers, or constant capital for the production of such articles, or not. The deductions made here apply just as well if these variations occur in the production of articles of luxury, and by the production of articles of luxury I mean all production not serving for the reproduction of labor-power.
I.VI.3

In the raw materials we include here also the auxiliary substances, such as indigo, coal, gas, etc. Furthermore, so far as machinery falls under this head, its own substance consists of iron, wood, leather, etc. Its own price is therefore affected by fluctuations in the prices of raw materials used in its construction. To the extent that its price is raised through fluctuations, either in the price of the raw materials of which it consists, or of the auxiliary substances consumed in its operation, the rate of profit is lowered. And vice versa.
I.VI.4

In the following analysis it will be necessary to confine ourselves to fluctuations in the price of raw materials, not so far as they go to make up the raw materials of machinery serving as means of production, or as raw materials in auxiliary substances applied in the operation of machinery, but in so far as they are raw materials contributing to the process in which commodities are produced. We make only this remark: The wealth of nature in iron, coal, wood, etc., which are the principal elements used in the construction and operation of machinery, presents itself here as a natural fertility of capital and becomes an element in determining the rate of profit, independently of the highness or lowness of wages.
I.VI.5

Since the rate of profit is represented by s/C, or s/(c+v), it is evident that everything which causes a variation of the magnitude of c, and thereby of C, must also bring about a variation in the rate of profit, even if s and v, and their mutual proportions, remain unaltered. Now, raw materials constitute one of the principal portions of constant capital. Even in industries which consume no raw material, in the strict meaning, it enters as auxiliary material, or as a component part of machinery, etc., and fluctuations in its price influence to that extent the rate of profit. If the price of raw material falls by the amount d, then s/C, or s/(c+v), become s/(C-d), or s/((c-d)+v), in other words, the rate of profit rises. On the other hand, if the price of raw material rises, then s/C, or s/(c+v), become s/(C+d), or s/((c+d)+v),

in other words, the rate of profit falls. Other circumstances remaining unchanged, the rate of profit falls and rises, therefore, inversely as the price of raw material. This shows, among other things, how important the low price of raw material is for industrial countries, even if fluctuations in the price of raw materials were not accompanied by variations in the selling sphere of the product, that is to say, quite aside from the relation of demand to supply. It follows furthermore that foreign trade influences the rate of profit, even aside from its influence on wages through the cheapening of the necessities of life, for it affects the prices of raw or auxiliary materials consumed in industry or agriculture. It is due to the imperfect understanding of the nature of the rate of profit and its specific difference from the rate of surplus-value that economists (like Torrens) give a wrong explanation of the marked influence of the prices of raw material on the rate of profit, as demonstrated by experience, and that on the other hand economists like Ricardo, who cling to general principles, misapprehend the influence of such factors as the world's trade on the rate of profit.

I.VI.6

We may realise, then, the great importance of the abolition or reduction of tariffs on raw materials for industry. Already the first rational development of the protective system made the utmost reduction of import duties on raw materials one of its cardinal principles. This, and the abolition of the duty on corn, was the main

object of the English free traders, who took also, above all, care to have the duty on cotton abolished.
I.VI.7

The use of flour in the cotton industry may serve as an illustration of the importance of a reduction in the price of an article, which, although not strictly raw material, is an auxiliary and, of course, at the same time one of the principal elements of food. As long ago as 1837, R. H. Greg*13 calculated that the 100,000 power looms and 250,000 hand looms then operated in the cotton mills of Great Britain consumed 41 million lbs. of flour in the smoothing of chains. To this was added a third of this quantity for bleaching and other processes. The total value of the flour so consumed was placed by him at 342,000 p.st. per year for the preceding ten years. A comparison with the prices of flour on the continent showed that the raise in the price of flour forced upon the manufacturers by the corn-laws amounted alone to 170,000 p.st. per year. For 1837, Greg estimated it at a minimum of 200,000 p.st., and he mentions the fact that one firm had to pay 1,000 p.st. more per year for flour. In consequence of this "Large manufacturers, careful and calculated business men, declared that 10 hours of labor per day would be enough, if the corn-laws were repealed." (Rep. Fact., Oct. 1848, page 98.) The corn-laws were repealed. Also the duties on cotton and other raw materials. But no sooner had this been accomplished than the opposition of the manufacturers to the Ten Hours Bill became more violent than ever.

And when the ten hour day in factories nevertheless became a law soon after, the first result was an attempt to reduce wages all around.
I.VI.8

The value of the raw materials and auxiliary substances passes entirely, and all at one time, into the value of the product in whose creation they are consumed, while the elements of fixed capital transfer their value only gradually to the product in proportion as they are worn away. It follows that the price of the product is influenced to a far higher degree by the price of raw materials than by that of fixed capital, although the rate of profit is determined by the total value of the capital, regardless of how much of this capital is consumed in the product. But it is evident‘although we mention this merely incidentally, since we are still assuming that commodities are sold at their values, so that fluctuations of price caused by competition do not concern us here‘that the expansion or restriction of the market depends on the price of the individual commodity and is inversely proportioned to the rise or fall of this price. For this reason we note in reality that a rise in the price of raw material is not accompanied by a corresponding rise of the price of the product, nor a fall in the price of the raw material by a corresponding fall of that of the product. Consequently the rate of profit falls lower in one case, and rises higher in the other, than it would if products were sold at their value.

I.VI.9

Furthermore, the mass and value of the employed machinery grows with the development of the productivity of labor, but not in the same proportion as this productivity, in other words, not in the same proportion as the machine increases its output. Those lines of industry, which consume raw materials, so that the objects on which they expend their labor are themselves products of previous labor, express the growing productivity of labor precisely by the proportion in which a certain increased portion of raw material absorbs a definite quantity of labor. In other words, this increasing productivity is measured by the increasing amount of raw material converted into products, worked up into commodities, for instance, in one hour. To the extent, then, that the productivity of labor is developed, the value of raw material forms an ever growing component of the value of the product in commodities, not only because it passes wholly into them, but also because every aliquot part of the aggregate product contains an ever decreasing share of that portion which represents the wear of machinery and that other which represents newly added labor. In consequence of this falling tendency the other portion of value which represents raw material increases correspondingly, unless this growth is counterbalanced by a proportionate decrease in the value of the raw material due to a growing productivity of the labor required for its production.

I.VI.10

Again, we know that the raw materials and auxiliary substances, the same as wages, form parts of the circulating capital and must be continually reproduced in their entirety through the sale of the product, while the machinery is renewed only to the extent that it wears out, a reserve fund being accumulated for that purpose. And it is not so essential that each individual sale should contribute its share to this reserve fund, so long as the total annual sales contribute their annual share. We see, then, once more that a rise in the price of raw material can curtail or clog the entire process of reproduction, since the price realised by the sale of the commodities may not suffice to reproduce all the elements of these commodities. Or, it may render a continuation of the process on a scale fitting for its technical basis impossible, so that either a portion of the machinery remains idle, or the whole machinery works only a part of the usual time.
I.VI.11

Finally, the expense due to waste varies in direct proportion to the fluctuations in the price of raw material, rises and falls with them. Of course, there is a limit also in this case. In 1850 it was still reported, in the factory reports for April, 1850, page 17, that one source of considerable losses through the raising of the price of raw material would hardly be noticed by any one who is not a practical spinner, namely losses through waste. The reporting inspector had been informed that a rise in the price of cotton implied a greater rise in

the expenses of the spinner than is indicated by the difference in price. The waste in the spinning of coarse yarns amounts to fully 15%. If this percentage causes a loss of ½ d. per lb. when cotton is worth 3½ d., then the loss increases to 1 d. per lb. as soon as cotton rises to 7 d. per lb. But when, as a result of the American Civil War, cotton rose to a height not equalled in almost a century, the report read differently. We learn from the factory reports of October, 1863, page 106, that the price then paid for cotton waste, and the return of the waste to the factory as raw material, offered some compensation for the difference in the loss through waste between Indian and American cotton. This difference amounted to 12½%. The loss in working up Indian cotton is 25%, so that really this cotton costs the spinner one-fourth more than he paid for it. The loss through waste was not so important while American cotton was quoted at 5 or 6 d. per lb., for it did not exceed ¾ d. per lb. But it became a matter for serious consideration, when cotton cost 2 sh. per lb. and the loss through waste amounted to 6d.*14

II. Appreciation, Depreciation, Release, and Tie-up of Capital.

I.VI.12

The phenomena analysed in this chapter require for their full development the credit-system and competition on the world-market, the latter being the basis and vital element of capitalist production.

These more concrete forms of capitalist production can be comprehensively presented only after the general nature of capital is understood. Moreover, such a presentation lies outside of the scope of this work and belongs in its eventual continuation. Nevertheless, the phenomena mentioned in the title of this chapter may be discussed at this stage in a general way. They are interrelated among themselves, and at the same time touch upon the rate and mass of profits. They are entitled to consideration right here for the further reason that they create the impression that not only the rate, but also the mass of profit‘which is actually identical with the mass of surplus-value‘could increase or decrease independently of the movements of surplus-value, whether it be its mass or its rate.
I.VI.13

Are we to consider the release and tie-up of capital on one side, its appreciation or depreciation on the other, as different phenomena?
I.VI.14

The question is first: What do we mean by the release and tie-up of capital? Appreciation and depreciation explain themselves. They do not signify anything but that a certain given capital grows or declines in value as a result of general economic conditions of some sort, for we do not discuss any particular fate of some individual capital. They indicate, in short, that the value of the capital invested in production

rises or falls, aside from the question of its self-expansion by means of the surplus-labor employed by it.
I.VI.15

By the tie-up of capital we mean that a certain portion of the total value of the product must be reconverted into the elements of constant and variable capital, if production is to proceed on the same scale. By the release of capital we mean that a portion of that part of the total value of the product which had to be reconverted into constant or variable capital up to a certain time becomes disposable and superfluous, provided production is to continue on the same scale. This release or tie-up of capital is different from the release or tie-up of revenue. If the annual surplus-value of a certain capital C is equal to x, then a reduction in the price of commodities consumed by the capitalists would suffice to procure the same enjoyments as before by means of x - a. In other words, a portion of the revenue equal to a is released, and may serve either for the extension of consumption or the reconversion into capital (for the purpose of accumulation). Vice versa, if x + a is needed in order to continue the same scale of living, then this scale must either be reduced or a portion of revenue equal to a and previously accumulated must be drawn upon as revenue.
I.VI.16

The appreciation or depreciation may strike either the constant, or the variable capital, or both. In the case of the constant capital it may affect either the fixed, or the circulating portion, or both.
I.VI.17

In the case of the constant capital we have to consider the raw materials and auxiliary substances, including half-wrought articles, all of which we comprise here under the term raw materials, furthermore, machinery and other fixed capital.
I.VI.18

We referred in the preceding analysis especially to variations in the price, or the value, of raw materials, and to their influence on the rate of profit. And we announced the general law that, other circumstances remaining the same, the rate or profit is inversely proportioned to the value of the raw materials. This is unconditionally true of a capital newly invested in any business enterprise, where the investment of capital, that is to say the conversion of money into productive capital, is just taking place.
I.VI.19

But aside from this capital in process of new investment, a large portion of the already functioning capital is engaged in the sphere of circulation, while another portion is busy in the sphere of production. One portion exists on the market in the shape of commodities waiting

to be converted into money; another exists in the shape of money of some kind waiting to be reconverted into elements of production, finally, a third portion exists in the sphere of production, either in the primitive form of means of production (raw materials, auxiliary substances, half-wrought articles purchased on the market, machinery and other fixed capital), or as products in process of manufacture. The effect of appreciation or depreciation of any of these depends in a large measure on the relative proportions of these things. Let us leave aside, for the sake of simplicity, all fixed capital, and let us consider only that portion of constant capital which consists of raw materials, auxiliary substances, partly wrought articles, and commodities in the making or in a finished state.
I.VI.20

If the price of raw material, for instance of cotton, rises, then the price of those cotton goods which were made while cotton was cheaper‘both half-wrought articles like yarn, and finished goods like cotton fabric‘rises along with that of the rest. So does the value of the cotton held in stock and waiting to be worked up and that of the cotton in process of being worked. This last-named cotton then represents by indirection more labor-time than was incorporated in it, and consequently it adds more value than its own original one to the product which it goes to make up, and more than the capitalist paid for it.
I.VI.21

If, then, a rise in the price of raw materials finds on the market a considerable quantity of finished commodities, whatever may be the state of their perfection, the value of these commodities rises, and consequently the value of the existing capital is enhanced. The same is true for the supply of raw materials in the hands of the producers. This appreciation of value may indemnify the individual capitalist, or even an entire sphere of capitalist production, for the loss caused by a fall in the rate of profit incidental to a rise in the price of raw materials, or it may even more than make good that loss. Without entering into the details of the effects of competition, we may state for the sake of completeness that, in the first place, when the supplies of raw material held in stock are considerable, they tend to oppose a rise in the price of raw materials at the place where they are produced; and in the second place, when the half-wrought articles and finished goods press very heavily upon the market, they prevent the price of these things from rising in proportion to the price of their raw materials.
I.VI.22

The reverse takes place when there is a fall in the price of raw materials. Other circumstances remaining the same, it increases the rate of profit. The commodities on the market, the articles in the making, and the supplies of raw material depreciate in value and thereby counteract the accompanying rise in the rate of profit.

I.VI.23

The effect of a variation in prices of raw materials becomes so much more marked, the smaller a quantity of supplies exists in the sphere of production and on the market, for instance at the close of a business year, when great masses of raw materials are delivered anew, as happens in agriculture after the harvest.
I.VI.24

We start in this entire analysis from the supposition that a rise or a fall in prices are the expressions of actual variations in value. But since we are here concerned in the effects of such variations in price on the rate of profit, it matters little what is at the bottom of them. The present statements apply just as well in the case that prices rise or fall, not on account of variations in value, but of the influence of the credit-system, competition, etc.
I.VI.25

Seeing that the rate of profit is the expression of the excess of the value of the product over the value of the total capital advanced, a rise of the rate of profit due to a depreciation of the advanced capital would be accompanied by a loss in the value of capital. And a lowering of the rate of profit due to an appreciation of the advanced capital might be accompanied by gains.
I.VI.26

As for the other portion of constant capital, such as machinery, and fixed capital in general, the appreciation of values taking place in them, and referring mainly to buildings, real estate, etc., they cannot be discussed without an understanding of the theory of ground rent, and do not belong in this chapter, for this reason. But they have a general importance for the question of depreciation.
I.VI.27

There are, in the first place, constant improvements which lower relatively the use-value, and therefore the exchange-value, of existing machinery, factory equipments, etc. This process has a dire effect especially during the first epoch of newly introduced machinery, before it has reached a certain stage of maturity, when it becomes continually antiquated before it has had time to reproduce its own value. This is one of the reasons for the irrational prolongation of the working time customary at such periods, of working with day and night shifts, in order that the value of the machinery may be reproduced in a shorter time without having to place the figures for wear and tear too high. On the other hand, if a short period of effectiveness of machinery (its short term of life compared to anticipated improvements) is not compensated in this way, then it yields too much of its value to the product by moral wear, so that it cannot compete even against hand-labor.*15
I.VI.28

When machinery, equipment of buildings, and fixed capital in general have reached a certain maturity, so that they remain unaltered in their basic construction, at least for an ordinary length of time, then a similar depreciation takes place in consequence of improvements in the methods of reproduction of this fixed capital. The value of machinery, etc., falls in that case, not because this machinery is rapidly crowded out and depreciated to a certain degree by new and more productive machinery, etc., but because it can be reproduced more cheaply. This is one of the reasons why large enterprises frequently do not flourish until they pass into the second hand, after their first proprietors have been bankrupted, so that their successors, who buy them cheaply, are enabled to begin with a smaller investment of capital at the very outset.

I.VI.29

In the case of agriculture it is evident that the same causes which raise the price of the product or lower it must also raise or lower the value of capital, since this capital consists to a large degree of this product, such as grain, cattle, etc.

I.VI.30

There still remains the variable capital for our consideration.

I.VI.31

To the extent that the value of labor-power rises on account of a rise in the price of the means of existence required for its reproduction, or falls on account of a reduction of the value of these means of existence‘and a rise or fall in the value of variable capital are but expressions of these two cases‘a rise in surplus-value corresponds to such depreciation and a fall in surplus-value to such appreciation, assuming the length of the working-day to remain the same. But other circumstances‘a release or tie-up of capital‘may accompany such cases, and as we did not analyse them so far, we may briefly mention them now.
I.VI.32

If wages fall in consequence of a depreciation of the value of labor-power (which may be accompanied even by a rise in the actual price of labor), then a portion of the capital hitherto invested in wages, is released. Variable capital is set free. For new investments of capital, this signifies a working with a higher rate of surplus-value. It takes less money than before to set in motion the same amount of labor, and in this way the unpaid portion of labor increases at the expense of the paid portion. But in the case of already invested capital not only the rate of surplus-value is raised, but a portion of the capital previously invested in wages is also released. It had been tied up until this time and formed a regular portion which had to be deducted from the proceeds of the product and advanced for wages, in order to

perform the functions of variable capital, provided the business was to continue on its former scale. Now this portion becomes disposable and may be used for a new investment, either in the extension of the same business, or to perform a function in some other sphere of production.
I.VI.33

Let us assume, for instance, that 500 p.st. were required at first to employ 500 laborers per week, and that now only 400 p.st. are needed for the same purpose. If the mass of value produced in either case was 1,000 p.st., then the mass of surplus-value produced per week in the first case was 500 p.st., and the rate of surplus-value 500/500, or 100%. But after the reduction of wages the mass of surplus-value will be 1,000-400, or 600 p.st., and its rate 600/400, or 150%. And this raising of the rate of profit is the only effect produced for any one who starts a new enterprise in this sphere of production with a variable capital of 400 p.st. and a corresponding constant capital. But in a business already existing when this takes place, the depreciation of the variable capital does not only increase the rate of surplus-value from 500 to 600 p.st., and the rate of surplus-value from 100 to 150%, but 100 p.st. of the variable capital are released and enabled to exploit more labor. The same amount of labor is then not alone advantageously exploited, but the release of 100 p.st. makes it possible to exploit more laborers with those 500 p.st. at the increased rate.

Now take the opposite case. Take it that the original proportion of division, with 500 laborers, was 400 v + 600 s, making 1,000, so that the rate of surplus-value was 150%. The laborer, in that case, received 4/5 p.st., or 16 shillings per week. Now, if in consequence of an appreciation of variable capital 500 laborers cost 500 p.st. per week, then each one of them will receive 1 p.st. per week, and 400 p.st. can employ only 400 laborers. If the same number of laborers as before is to be employed, then we must have 500 v + 500 s, or 1,000. The rate of surplus-value would have fallen from 150 to 100%, which is by one-third. If some new capital were now to be invested, the only effect felt by it would be this lower rate of surplus-value. Other circumstances remaining the same, the rate of profit would also have fallen, although not to the same extent. For instance, if c equals 2,000, we should have in the one case 2,000 c + 400 v + 600 s = 3,000. The rate of surplus-value would be 150%, the rate of profit 600/2400, or 25%. In the second case we should have 2,000 c + 500 v + 500 s = 3,000. The rate of surplus-value would be 100%, the rate of profit 500/2500, or 20%. However, for a capital already invested there would be a twofold effect. Only 400 laborers could be employed with 400 p.st., at a rate of surplus-value amounting to 100%. They would then produce only 400 p.st. of surplus-value. Furthermore, since a constant capital of 2,000 p.st. requires 500 laborers for its operation, 400 laborers could operate only a constant

capital of 1,600 p.st. If production is to continue on the same scale as before and one-third of the machinery prevented from remaining idle, then the variable capital must be increased by 100 p.st., in order that 500 laborers may still be employed. And this can be accomplished only by tying up a hitherto disposable capital, so that a portion of the accumulation intended for an extension of production serves then merely for stopping a gap, or a portion reserved for revenue is added to the old capital. A variable capital increased by 100 p.st. produces then 100 p.st. less of surplus-value. More capital is required to employ the same number of laborers, and the surplus-value yielded up by each laborer is at the same time reduced.
I.VI.35

The advantages resulting from a release, and the disadvantages resulting from a tie-up of variable capital, affect only capital already engaged and reproducing itself under certain determined conditions. So far as newly invested capital is concerned, the advantage on the one, or the disadvantage on the other side, are limited to a raising or lowering of the rate of surplus-value and a variation of the rate of profit accordingly, if not always in the same proportion.
I.VI.36

The release and tie-up of variable capital, analysed in the foregoing, is the result of a depreciation or appreciation of the elements of variable capital, that is to say, of the cost of reproduction of labor-power.

However, variable capital might also be released, if the development of the productivity, with the rate of wages unchanged, results in the possibility of getting along with fewer laborers for the operation of the same amount of constant capital. Vice versa, additional variable capital may be formed, if the productive power declines and more laborers are needed to operate the same mass of constant capital. On the other hand, if a portion of capital formerly employed in the capacity of variable capital is transferred to the constant capital, so that there is merely a different distribution between the components of the same capital, this has its influence on the rate of surplus-value and of profit, but does not belong in this discussion of the release and tie-up of capital.
I.VI.37

We have already seen that constant capital may be released or tied up by a depreciation or appreciation of its component elements. Aside from this, it can be tied up only in the case that the productive power of labor increases (not to mention the case in which a portion of the variable is transferred to the constant capital), so that the same amount of labor creates a greater product and therefore operates a larger constant capital. The same may occur under certain circumstances when the productive power decreases, for instance in agriculture, so that the same quantity of labor requires more means of production, such as seeds, manure, drainage, etc., in order to produce the same output. Constant capital may be released without

depreciation, when improvements, the harnessing of natural powers, etc., enable a constant capital of smaller value to perform the same technical services as those formerly performed by a constant capital of greater value.

I.VI.38

We have seen in volume II that once that the commodities have been converted into money, sold, a certain portion of this money must be reconverted into the material elements of constant capital, and this in proportion to the technical nature of any given sphere of production. In this respect, the most important element in all lines‘aside from wages, or variable capital‘is the raw material, including the auxiliary substances, which are particularly important, in all lines of production that do not use any raw materials in the strict meaning of the term, for instance in mining and extractive industries in general. That portion of the price which has to make good the wear and tear of machinery plays mainly an ideal role in calculation, so long as the machine is at all in workable condition. It does not matter greatly whether it is paid and replaced by money to-day or to-morrow, or in any other section of the period of turn-over of the capital. It is different with the raw material. If the price of raw material rises, it may be impossible to make it good fully out of the price of the commodities after deducting the wages. Violent fluctuations of price therefore cause interruptions, great collisions, or even catastrophies in the process of reproduction. It is especially the products of agriculture,

raw materials taken from organic nature, which are subject to such fluctuations of value in consequence of changing yields, etc., leaving aside altogether the question of the credit-system, for the present. The same quantity of labor may, in consequence of uncontrollable natural conditions, the favor or disfavor of seasons, etc., be incorporated in very different quantities of use-values, and a definite quantity of these use-values may have very different prices. If the value x is represented by 100 lbs. of the commodity a, then the price of one lb. of a equals x/100. If it is represented by 1,000 lbs., the price of one lb. is x/1000, etc. This is one of the elements in the fluctuations of the price of raw materials. A second element, which is mentioned at this point only for the sake of completeness, since competition and the credit-system are still outside of the scope of our analysis, is this: It is in the nature of the thing that vegetable and animal substances, which are dependent on certain laws of time for their growth and production, cannot be suddenly augmented in the same degree as, for instance, machines and other fixed capital, or coal, ore, etc., whose augmentation, assuming the natural requirements to be present, can be accomplished in a very short time in an industrial country. It is therefore impossible, and under a developed system of capitalist production even inevitable, that the production and augmentation of that portion of the constant capital which consists of fixed capital, machinery, etc., should run ahead of that portion which consists of organic raw materials, so that the demand for these last materials grows more rapidly than their supply,

and their price rises in consequence. This rising of prices carries with it the following results: 1) A shipping of raw materials from great distances, seeing that the rising price covers greater freight rates; 2) an increase in their production, which, however, for natural reasons, will not be felt until the following year; 3) a using up of various hitherto unused accessories, and a better economising of waste. If this rise of prices begins to exert a marked influence on production and supply, the turning point has generally arrived at which the demand lets up on account of the protracted rise of the raw material and of all commodities made up of it, so that a reaction in the price of raw material takes place. Aside from convulsions due to the depreciation of capital in various forms, this reaction is also accompanied by other circumstances which will be mentioned immediately.
I.VI.39

So much is evident from the foregoing: To the extent that capitalist production is developed, and with it the means of suddenly and permanently increasing that portion of the constant capital which consists of machinery, etc., and to the extent that accumulation is accelerated (as it is particularly in times of prosperity), to that extent does the relative over-production of machinery and other fixed capital increase, the relative underproduction of vegetable and animal raw materials become more frequent, the above described rise of their prices and the subsequent reaction more marked. And the revulsions increase correspondingly in frequency, so far as they are due to this

violent fluctuation of one of the main elements of the process of reproduction.

I.VI.40

Now, if these high prices collapse, because their rise had caused partly a falling off in the demand, partly an extension of production here, an importation of goods from remote and hitherto little noted or neglected regions of production in another place, and with them an excess of the supply over the demand, especially if this excess comes in with the old prices, then we have a result which offers various points of view. The sudden collapse of the price of raw materials checks their reproduction, and consequently the monopoly of the original producing countries, which are favored by the best conditions, is restored. It may be restored with certain limitations but still it is restored. The reproduction of the raw materials proceeds indeed, after the first impulse has been given, on an enlarged scale, especially in countries which have more or less of a monopoly of this production. But the basis on which production takes place after the extension of machinery, etc., and which, after some fluctuations, has to serve as the new point of departure, is very much enlarged by the occurrences of the last cycle of turn-over. At the same time the barely increased reproduction has been considerably checked in the secondary countries of supply. For instance, it can be easily shown by a reference to the export tables that, during the last thirty years (up to 1865) the production of cotton grows in India, whenever there has been a falling

off in the American, and that there is after awhile a sudden drop and falling off in the Indian. During the period in which raw materials are high, the industrial capitalists get together in associations for the purpose of regulating production. So they did, for instance, after the rise of cotton prices in 1848, in Manchester, and a similar move was made in the production of flax in Ireland. But as soon as the immediate impulse has worn off, and the principle of competition reigns once more supreme, according to which one must "buy in the cheapest market" (instead of stimulating production in the most favored countries, as those associations attempt to do, without regard to the monetary price at which those countries may just happen to supply their product), the regulation of the supply is left once more to "prices." All thought of a common, far-reaching, circumspect control of the production of raw materials gives way once more to the belief that demand and supply will mutually regulate one another. And it must be admitted that such a control is on the whole irreconcilable with the laws of capitalist production, and remains for ever a platonic desire, or is limited to exceptional co-operation in times of great stress and helplessness.*16 The superstition of the capitalists in this respect is so crude that even the factory inspectors lift their hands in surprise, in their reports. The variation of good and bad years, of course, leads at times to the production of cheaper raw materials. Aside from the direct effect of this on the extension of the demand, an added stimulant is found in the previously mentioned influence on the rate of profit. Thereupon the aforesaid process of a gradual

overtaking of the production of raw materials by that of machinery, etc., is repeated on a larger scale. An actual improvement of raw materials in such a way that not only their quantity, but also their quality would come up to expectations, for instance supplying cotton of American quality from Indian fields, would necessitate a long continued, progressively growing, and steady European demand (quite aside from the economic conditions under which the Indian producer labors in his country). As it is, the sphere of production of raw materials is extended only convulsively, being now suddenly enlarged, and then violently contracted. All this, and the spirit of capitalist production in general, may be very well studied in the cotton crisis of 1861-65, which was further aggravated by the fact that raw materials were at times entirely missing which are one of the principal factors of reproduction. The price may also rise while there is an abundant supply, namely in the case that this abundance takes place under difficult conditions. Or, there may be an actual shortage of raw material. It was the last condition which originally prevailed in the cotton crisis.

I.VI.41

The closer we approach in the history of production to our own times, so much more regularly do we find, especially in the essential lines of industry, the ever recurring fluctuation between a relative appreciation and the resulting depreciation of raw materials purloined from organic

nature. The preceding statements will be verified by the following illustrations from reports of factory inspectors.

I.VI.42

The moral of this story, which may also be deduced from other observations in agriculture, is that the capitalist system works against a rational agriculture, or that a rational agriculture is irreconcilable with the capitalist system, although technical improvements in agriculture are promoted by capitalism. But under this system, agriculture needs either the hands of the self-employing small farmer, or the control of associated producers.

I.VI.43

We present now the following illustrations from the English factory reports.

I.VI.44

According to R. Baker, factory reports for October, 1858, pages 56-61, the condition of business was then better. But the cycle of good and bad times was shortened with the increase of machinery, and to the extent that the demand for raw materials increases, the fluctuation in the conditions of business occur more frequently. For the time being confidence had been restored after the panic of 1857, and the panic itself seemed almost forgotten. Whether this improvement would be

lasting, depended, in Baker's opinion, to a large extent on the price of raw materials. He saw indications that the maximum had already been reached, beyond which manufacture becomes less and less profitable, and finally ceases altogether to yield any profits. Taking the prosperous years in the worsted business, 1849 and 1850, it will be seen that the price of English carded wool was 13 d., and of Australian, 14 to 17 d. per lb., and that the average price of English wool, for the decade from 1841 to 1850, never exceeded 14 d., nor that of Australian 17 d. But at the beginning of the disastrous year 1857, Australian wool was quoted at 23 d. It fell in December, at the time of the worst panic, to 18 d., but rose once more in the course of the year 1858 to 21 d. English wool likewise began in 1857 with 20 d., rose in April and September to 21 d., fell in January, 1858 to 14 d., and rose subsequently to 17 d., so that it stood 3 d. per lb. higher than the average of the aforementioned 10 years. This shows, in Mr. Baker's opinion, that either the failures of 1857, which were due to similar prices, have been forgotten, or that barely enough wool is produced to keep the existing spindles running. Or the prices of fabrics may experience a lasting rise. But he has seen in his experience that spindles and frames multiplied in an incredibly short time, not only in numbers, but also in speed; that the English wool export to France rose at almost the same rate, while the average age of sheep in England and other countries was steadily reduced, since the population was rapidly increasing and breeders were trying to turn their stock into money as quickly as possible. He often was seriously

alarmed, when he saw people, ignorant of these facts, invest their ability and their capital in enterprises whose success depended on the supply of a product which can be increased only according to certain organic laws. The conditions of supply and demand of all raw materials seems to explain to Mr. Baker many fluctuations in the cotton business as well as the condition of the English wool market in the fall of 1857 and the subsequent commercial crisis.*17
I.VI.45

The most flourishing time of the worsted industry of the West-Riding of Yorkshire was from 1849 to 50. This industry employed 29,246 persons in 1838, 37,000 persons in 1843, 48,097 in 1845, 74,891 in 1850. (Factory Reports, 1850, page 60.) This prosperity of the carded wool industry began to excite certain forebodings in October, 1850. In his report for April, 1851, sub-inspector Baker says in regard to Leeds and Bradford that the condition of business is very unsatisfactory. The carded wool spinners are rapidly losing the profits of 1850, and the majority of the weavers do not make much progress. He believes that more wool machinery is momentarily standing idle than ever before, and the flax spinners are likewise discharging laborers and stopping machinery. The cycles of the textile industry are very uncertain, and he thinks that people will soon realise that no proportion is observed between the productivity of the spindles, the quantity of raw materials, and the increase of population. (Page 52.)
I.VI.46

The same is true of the cotton industry. In the same report for October, 1858, we read that, since the fixing of the hours of labor in factories, the amounts of raw material consumed, of production, and of wages in all textile industries have been reduced to a simple rule of three. The inspector quotes from a recent lecture by Mr. Payns, who was then mayor of Blackburn, on the cotton industry, in which the industrial statistics of that region were very accurately compiled. The mayor said in substance that every actual horse-power operates 450 self-actor spindles with preparatory spinning machinery, or 200 throstle spindles, or 15 looms for cloth 40 inches wide, with machinery for reeling, warping and smoothing. Every horse-power employs two and a half laborers in spinning, or 10 in weaving. Their average wages are fully 10½ shillings per capita per week. The worked up average numbers are Nos. 30-32 for the warp and Nos. 34-36 for the woof. Assuming the product of one week's spinning to be 13 ounces per spindle, the weekly output of yarn would be 824,700 lbs., which imply a consumption of 970,000 lbs., or 2,300 bales of cotton valued at 28,300 p.st. In a circle of five miles around Blackburn the weekly consumption of cotton amounted to 1,530,000 lbs., or 3,650 bales, at a cost-price of 44,625 p.st. This is one-eighteenth of the entire cotton spun in the United Kingdom, and one-sixteenth of the entire mechanical weaving.

I.VI.47

The inspector says that according to the calculations of Mr. Payns the total number of cotton spindles in the United Kingdom would be 28,800,000, and it would require 1,432,080,000 lbs. of cotton to keep them going at full speed. But the cotton imports, after deducting the exports, amounted in 1856 and 1857 only to 1,022,576,832 lbs. so that there must have been a shortage of 409,503,168 lbs. Mr. Payns, who had the kindness to discuss this point with the inspector, held that a computation of the annual consumption of cotton, based on the consumption of the Blackburn district, would total up too high, on account of the difference, not only of the numbers spun, but also of the excellence of the machinery. He estimated the total consumption of cotton per year in the United Kingdom at 1,000 million lbs. But if he is correct, and there is actually a surplus-import of 22½ million lbs., then the inspector thinks that demand and supply are nearly balanced, without taking into account the additional spindles and looms which are about to be erected in Mr. Payns' own district, according to him, and the same applies probably to other districts as well. (Pages 59, 60.)

III. General Illustration. The Cotton Crisis of 1861-1865.
Preliminary History, 1845-1860

I.VI.48

1845. Prosperity of cotton industry. Price of cotton very low. L. Horner says on this point that he has not witnessed a more active period of business than that of the last summer and fall. Especially in the spinning of cotton. Throughout the entire six months he received every week reports of new investments of capital in factories. Now new factories were being built, now the few vacant ones had found new renters, now factories which were in operation were extended, new and stronger steam engines installed and more working machinery added. (Factory Reports, November, 1845, page 13.) I.VI.49

1845. The complaints are beginning. For some time the inspector hears general complaints among the manufacturers over the depressed state of their business. During the last six weeks, he says, various factories have begun working short time, generally 8 hours instead of 12. This seemed to become general. There had been a great rise in the price of cotton, while the price of the products had not alone not risen, but fallen to a lower figure than that before the rise in cotton. The great increase in the number of cotton factories during the preceding four years must have caused a strong increase in the demand for raw material and a large supply of products on the market. Both of these things must have operated to depress profits, so long as the supply of raw material and the demand for the product remained unchanged. But they actually had a far stronger influence, because the supply of cotton had recently been insufficient,

and the demand for the product had let up in various inland and foreign markets. (Factory Reports, December, 1846, page 10.)
I.VI.50

The rising demand for raw materials went, of course, hand in hand with the overstocking of the market with products. By the way, at that period the expansion of industry and the subsequent stagnation were not confined to the cotton districts. The carded wool district of Bradford contained in 1836 only 318 factories, but 490 in 1846. And these figures do not by any means express the actual extension of production, since the existing factories were at the same time considerably enlarged. This was especially true of the flax mills. According to the factory report, November, 1846, page 30, all of them had contributed more or less, during the preceding 10 years, to that overstocking of the market which was to blame for the stagnation of business at the time being. The depression in business followed naturally after such a rapid expansion of factories and machinery.
I.VI.51

1847. In October, a money panic. Discount 8%. This was preceded by a collapse of railroad speculation, and of jobbing with East-Indian bills of exchange.
I.VI.52

The factory report for October, 1847, page 30, states that Mr. Baker presented very interesting details concerning the rise in the demand for cotton, wool, and flax, in recent years, caused by the expansion of these industries. He held that the increased demand for these raw materials, particularly at a time when their supply had fallen far below the average, was sufficient to explain the prevailing depression in those lines of business, without reference to the insecurity of the money-market. This view was fully supported by the personal experience of the writer of the report, and by statements made to him by experts in business. All these various lines of business had been very much depressed, when discounts were still practicable at 5% and less. On the other hand, the supply of raw silk was abundant, prices reasonable, and the business correspondingly brisk until a few weeks previously, when doubtless the money-panic affected not only the dealers in raw silk, but still more their principal customers, the manufacturers of custom made goods. A glance at the published official reports showed that the cotton industry had increased by almost 27% during the preceding three years. As a result, cotton had risen in round figures from 4 d. to 6 d. per lb., while yarn, thanks to the increased supply, stood only a trifle above its former price. The wool industry commenced to expand in 1836. Since then it had grown by 40% in Yorkshire, and still more in Scotland. The increase in the worsted industry was still larger.*18 The calculations showed in its case, for the same length of time, an expansion of more than 74%. The consumption of raw wool had,

therefore, been very large. The linen industry showed since 1839 an increase of about 25% in England, 22% in Scotland, and almost 90% in Ireland,*19 the consequence of this, and of the failure of flax crops, was that the price of the raw material rose by 10 p.st. per ton, while the price of yarn had fallen by 6 d. per bundle.
I.VI.53

1849. Beginning with the last months of 1848, business revived. According to factory reports, 1849, pages 30, 31, the price of flax, which was so low that it guaranteed a reasonable profit under all possible future circumstances, induced manufacturers to push their business steadily. The wool manufacturers were very busy for a time in the beginning of the year. The writer of the report feared, however, that consignments of woolen goods often took the place of real demand, and that periods of seeming prosperity, that is to say, of full employment, did not always coincide with periods of legitimate demand. The worsted business was particularly good for some months. In the beginning of this period, wool stood especially low. The mill-owners had stocked them-selves at advantageous prices, and no doubt in considerable quantities. When the price of wool rose with the spring auctions, the mill-owners had the advantage, and they retained it, since the demand for goods became strong and irresistible.
I.VI.54

On page 42 of the factory report for April, 1849, we read that, considering the fluctuations in the conditions of business, which had taken place in the factory districts for three or four years, it must be admitted that there is somewhere some great disturbing cause. May not the productive power of the increased machinery have become a new element?
I.VI.55

In November, 1848, in May, summer, and up to October, 1849, business became more and more flourishing. The same report states on pages 42 and 43, that this applies particularly to the manufacture of goods from worsted yarn, which centers in Bradford and Halifax. At no previous time did this business approximate the extension which it had then. The speculation in raw materials, and the uncertainty of its probable supply, has always caused greater excitement and more frequent fluctuations in the cotton industry than in any other line of business. For the time being there was an accumulation of supplies of the coarser grades of cotton goods, which worried the small mill-owners and placed them at a disadvantage, so that some of them were working short time.
I.VI.56

1850. April. Business continued brisk. Exception, according to factory report, April, 1850, page 54: There is a great depression in a portion of the cotton industry as a result of insufficient supplies of raw

material precisely for coarse grades of yarn and heavy textures. It is feared that the increased machinery lately installed in the worsted business may bring about a similar reaction. Mr. Baker calculates that alone in the year 1849, the product of the looms in this business has grown by 40%, and that of the spindles by 25 to 30%, and the expansion is still continuing at the same rate.
I.VI.57

1850. October. The factory report for October states on page 15 that the price of cotton continues to cause considerable depression in this line of industry, especially for such goods as require a considerable portion of the cost of production to be spent for raw material. The great rise in the price of raw silk has led to an aggravation of the situation in many instances, also in this line. And on page 33 of the same report we learn that the committee of the Royal Association for Flax Culture in Ireland was of the opinion that the high price of flax, together with the low level of prices of other agricultural products, had safeguarded a considerable increase in the production of flax for the ensuing year.
I.VI.58

1853. April. Great prosperity. L. Horner says in the factory report for April, 1853, page 19, that at no time during the 17 years, in which he took official notice of the condition of the factory districts of

Lancashire, has he seen such general prosperity. The activity in all lines was extraordinary.
I.VI.59

1853. October. Depression in the cotton industry. Overproduction. (Factory Report, October, 1853, page 15.)
I.VI.60

1854. April. The factory report for 1854, page 37, states that the wool business, while not brisk, furnished full employment for all factories. The same held good of the cotton industry. The worsted business was irregular throughout the entire preceding half year. There was a disturbance in the linen industry in consequence of the reduced supply of flax and hemp from Russia, on account of the war in the Crimea.
I.VI.61

1859. According to the factory report for April, 1859, page 19, business was still depressed in the Scotch linen industry, because the raw material was scarce and dear. The low quality of the preceding crop in the Baltic countries, from which came the main supply, was expected to exert an injurious influence on the business of this district. On the other hand, jute, which displaced flax for many coarse goods, was neither uncommonly dear nor scarce. About one-half of the machinery in Dundee was spinning jute. The factory report for October, 1859, states on page 30, that in consequence of the high

price of raw material, flax spinning is not yet profitable, and while all other factories are running on full time, there are various instances of idle flax machinery. The jute mills are in a satisfactory condition, since recently this material has fallen to a reasonable figure.

1861-64. American Civil War. Cotton Famine. The Greatest Illustration of an Interruption in the Process of Production through Scarcity and Dearness of Raw Material.

I.VI.62

1860. April. The reporting inspector says in substance in factory report, April, 1860: I am pleased to be able to inform you that, in spite of the high price of raw materials, all textile industries, with the exception of silk, have been well employed during the last half year. In some of the cotton districts, laborers were advertised for, and secured by immigration from Norfolk and other rural counties. There seems to be a great lack of raw materials in all branches of industry. It is alone this lack which holds us back. In the cotton business, the number of factories erected, the extension of already existing ones, and the demand for laborers, has probably never been so great. Raw materials are sought on all sides.
I.VI.63

1860. October. The factory report for October, 1860, states on page 37, that the condition of business in the cotton, wool, and flax districts has been good. It is reported to have been very good in Ireland, for more than a year, and would have been still better but for the high price of raw materials. The flax mills seem to be waiting with more impatience than ever for the opening of the resources of India by railroads, and for a corresponding development of its agriculture, in order to secure at last a supply of flax sufficient for their requirements.
I.VI.64

1861. April. The factory report for April, 1861, states on page 33 that the condition of business for the time being was depressed. A few cotton goods factories were working short time, and many silk factories were running only a part of the time. Raw materials were dear. In almost every textile branch raw materials were quoted above the price at which they could be worked by the mass of the consumers.
I.VI.65

It now became evident that the cotton industry had produced too much in 1860. The effect of this made itself felt for the next few years. The factory report for December, 1863, page 127, states that it took between two and three years for the world-market to absorb the overproduction of 1860. And the factory report for October, 1862,

pages 28 and 29, says in so many words: The depressed condition of the markets for cotton goods in Eastern Asia, in the beginning of 1860, had a corresponding influence on the business in Blackburn, where on an average of 30,000 mechanical looms are almost exclusively engaged in the production of goods for this market. The demand for labor was, therefore, already restricted at this point many months before the effects of the blockade made themselves felt. Fortunately, many factories were thereby saved from ruin. The supplies rose in value so long as they were held in stock, and this prevented the appalling depreciation which is otherwise inevitable in such a crisis.
I.VI.66

1861. October. According to the factory report for October, 1861, page 19, the business has been depressed for some time. It is not at all improbable that many factories will materially reduce their working time during the winter months. However, this was to be anticipated; quite aside from the causes which have interrupted the ordinary supply of cotton from America and the English exports, it would have been necessary to reduce the hours of labor during the coming winter, on account of the strong increase of production in the preceding three years, and the disturbance of the Indian and Chinese markets.

Cotton Waste. East Indian Cotton. (Surat.) Influence on the Wages of Laborers. Improvement of Machinery. Substitution of Starch Flour and Minerals for Cotton. Effect of this Starch Flour Ingredient on the Laborers. Manufacturers of Fine Grades of Yarn. Fraud on the Part of the Manufacturers.

I.VI.67

An inspector writes in the factory report for October, 1863, page 63: A manufacturer thinks that, so far as the estimate of the cotton consumption per spindle is concerned, I did not sufficiently appreciate the fact that, when a cotton is dear, every manufacturer of ordinary yarns (say up to No. 40, mainly from 12 to 32) spins as fine grades as he possibly can, that is to say, he will spin No. 16 instead of 12, or 22 instead of 16, etc. And the weaver who works up these fine yarns, will raise his calico to the regular weight by adding so much more glue. This expedient is now used to a shameful degree. I have it on good authority that there are ordinary shirtings for export weighing 8 lbs. per piece, of which 2 lbs. were glue. Textures of other kinds are often given as much as 50% of glue, so that that manufacturer does not lie by any means who boasts of becoming a rich man by selling his fabrics at less money per pound than he paid for the yarn of which they are made.
I.VI.68

We read furthermore in the same place: I have also been told that the weavers ascribe the growth of disease among themselves to the glue used in the woof of East-Indian Cotton and not merely consisting of flour, as heretofore. This substitute for flour is said to have the very great advantage of increasing the weight of fabrics considerably, so that 15 lbs. of yarn, after being woven, weigh 20 lbs. (This substitute was ground talcum, called China clay, or gypsum, called French chalk.) The wages of the weavers (meaning the laborers) have been very much reduced by the employment of substitutes for flour in the making of weaver's glue. This glue renders the yarn heavier, but also stiff and brittle. Every thread of the yarn passes in the loom through the bobbin, whose strong threads keep the woof in position. The stiffly glued woof continually causes breaks in the thread of the bobbin. Every break causes a loss of five minutes to the weaver for repairs. The weavers have to repair such breaks ten times as often as formerly, and the loom naturally turns out so much less during working hours. (Pages 42 and 43.)
I.VI.69

In Ashton, Stalybridge, Oldham, etc., the working hours have been reduced by at least one-third, and are reduced still more every week. This reduction of the hours of labor is in many instances accompanied by a reduction of wages. (Page 13.) In the beginning of 1861, a strike took place among the mechanical weavers in some parts of Lancashire. Several manufacturers had announced a reduction of

wages by 5 to 7.5%. The laborers insisted that the scale of wages should be maintained and the hours of labor reduced. This was not granted, and a strike was called. After one month, the laborers had to give in. But then they got both. Aside from a reduction of wages which the laborers finally accepted they also worked short time in many factories. (Factory Report, April, 1863, page 23.)
I.VI.70

1862. April. The sufferings of the laborers had considerably increased since the last report was made. But at no time in the history of this industry have so sudden and so grievous ills been borne with so much quiet resignation and such patient self-respect. (Factory Report, April, 1862, page 10.) The proportion of the temporarily totally unemployed laborers does not seem to be much larger than in 1848, when there was an ordinary panic, which, however, was of sufficient force to induce the worried manufacturers to compile a similar statistics on the cotton industry as that now given out weekly. In May, 1848, 15% of all the cotton employes of Manchester were idle, 12% worked short time, while more than 70% worked on full time. On May 28, 1862, there were 15% idle, 35% working on short time, and 49% on full time. In the neighboring places, for instance at Stockport, the percentage of the idle and partly employed is higher, that of the fully employed lower, because coarser numbers are spun there than in Manchester. (Page 16.)
I.VI.71

1862. October. According to the last official statistics, there were in the United Kingdom 2,887 cotton factories, of which 2,109 were in the districts of Lancashire and Cheshire. The reporting inspector knew well enough that a very large number of the 2,109 factories in his district were small establishments, which employed but a few laborers. But he was surprised when he found how large was the number of these. There were 392, or 19%, which had less than 10 horse-power motors (steam or water); 345, or 16%, had between 10 and 20 horse-powers; 1,372 had 20 horse-powers or more. A very large portion of the small manufacturers, more than one-third, had been laborers not very long ago. They are men without a command of capital. The main burden would fall upon the other two-thirds. (Factory Reports, October, 1862, pages 18, 19.)
I.VI.72

According to the same report, 40,146, or 11.3% of the cotton employes of Lancashire and Cheshire, were then working full time; 134,767, or 38%, were working a part of the time; 197,721, or 50.7%, were unemployed. If we deduct from these figures the data referring to Manchester and Bolton, where mainly fine numbers were spun, a line little affected by the cotton famine, then the matter looks still more unfavorable, namely fully employed 8.5%, partly employed 38%, unemployed 53.3%. (Pages 19 and 20.)
I.VI.73

It makes an essential difference for the laborers whether good or bad cotton is worked up. In the first months of the year, when the manufacturers sought to keep their factories going by using up all the cotton bought at cheap prices, much bad cotton went into factories that usually worked only with good cotton. The difference in the wages of the laborers was so great that many strikes took place because no living wage could be made at the old piece wages. In a few instances the difference due to the employment of bad cotton amounted to one-half of the total wages, even at full time. (Page 27.)
I.VI.74

1863. April. In the course of this year, not more than about one-half of the cotton employes will work on full time. (Factory Report, April, 1863, page 14.)
I.VI.75

A very serious inconvenience in the employment of East-Indian cotton, such as the factories must use at this time, is that the speed of the machinery must be considerably reduced with it. During the last years, everything has been tried to increase the speed, so that the same machinery might do more work. However, the reduced speed hits the laborer as much as the manufacturer. For the majority of the laborers are paid by the piece, the spinners receiving so much per lb. of yarn spun, the weavers so much per piece woven. And even the others,

who work on weekly wages, will suffer a reduction through the restriction of production. According to the researches of the inspector, and the data received by him, referring to the wages of the cotton employes during the year, there is an average reduction of 20% in some cases as much as 50%, compared to the wages which were in vogue in 1861. (Page 13.) The amount earned depends on the quality of the material worked up. The condition of the laborers, so far as earnings are concerned, is much better now (October, 1863) than at the same time last year. The machinery has been improved, the raw material is better known, and the laborers overcome the difficulties better with which they had to struggle in the beginning. In the previous spring, the inspector was in a sewing school in Preston (a charity institution for unemployed). Two young girls, who had been sent to a weaving establishment on the strength of a promise that they would be able to make 4 shillings per week, asked to be readmitted to the school and complained that they could not make 1 shilling per week. The inspector has had information concerning self-acting minders, that is to say, men who operate a few self-actors, who had earned 8 sh. 11d. after 14 days of full employment, and their house-rent was deducted from this sum. The manufacturer returned one-half of this rent to them as a gift. (How generous!) The minders carried home the amount of 6 sh. 11 d. In some places the self-acting minders earned from 5 to 9 sh. per week, the weavers from 2 to 6 sh. per week, during the last months of 1862. At the time of the report there was a healthier condition of things, although

even then the earnings in most districts had decreased still more. Other conditions contributed to the scanty earnings, aside from the shorter staple of East-Indian cotton and its impurity. For instance, it had become the custom to mix plenty of cotton waste with the Indian cotton, and this increases, of course, the difficulties for the spinner. Owing to the shortness of the fiber, the threads break more easily in drawing out the mule and twisting the yarn, and the mule cannot be kept going so regularly. Furthermore, one girl frequently can watch but one loom, because she must pay more attention to the threads. But few of them have more than two looms. In many cases the wages of the laborers have been reduced by 5, 7.5, and 10%. In the majority of cases the laborer must handle his raw material as best he may, and try to make wages at the ordinary scale to the best of his power. Another difficulty with which the weavers have sometimes to struggle is that they are supposed to make good fabrics out of bad materials, and are fined by deductions from their wages, if the work is not all that is desired. (Factory reports, October, 1863, pages 41-43.)

I.VI.76

Wages were miserable, even in places where full time was worked. The cotton employes willingly offered themselves for all public labors, drainage, road building, stone breaking, street paving, which they did in order to get their keep from the authorities (although this amounted practically to an assistance for the manufacturers. See

volume I, chapter XXV, 3.) The whole bourgeoisie stood guard over the laborers. If the worst of a dog's wages were offered, and the laborer refused to accept them, then the Assistance Committee struck him from their list. It was in a way a golden age for the manufacturers, for the laborers had either to starve or work at any price profitable for the bourgeois. The Assistance Committees acted as watch-dogs. At the same time the manufacturers, in secret agreement with the government, hindered emigration as much as possible, either for the purpose of having their capital, invested in the flesh and blood of laborers, ready at hand, or of safeguarding the squeezing of rent out of the laborers.
I.VI.77

The Assistance Committees acted with great severity in this matter. If work was offered, the laborers to whom it was offered were stricken from the lists and compelled to accept. If they refused to begin work, the reason was that their earnings were but nominal, while the work was extraordinarily hard. (Page 97.)
I.VI.78

The laborers were willing to perform any work for which they were employed in consequence of the Public Work Acts. The principles according to which industrial occupations were assigned, varied considerably in different cities. But even in places where work in the open air was not absolutely regarded as a labor test, this labor was

either compensated with the bare ordinary charity sum, or so insignificantly better that it actually became a labor test. (Page 69.) The Public Works Act of 1863 was to remedy this evil and to enable the laborer to earn his wages as an independent day laborer. The purpose of this Act was threefold: 1) To enable local authorities to borrow money from the loan treasury commissioners (with the consent of the president of the state's central poor boards; 2) to facilitate improvements in the cities of the cotton districts; 3) to secure work and remunerative wages for the unemployed laborers. Up to the end of 1863, loans to the amount of 883,700 p.st. had been granted under this Act. (Page 70.) The enterprises started were mainly canalisation, road building, street paving, reservoirs for water works, etc.
I.VI.79

Mr. Henderson, president of the committee of Blackburn, wrote with reference to this to factory inspector Redgrave, that in his entire experience in the course of this period of suffering and misery nothing had struck him more emphatically or given him so much pleasure as the serene willingness with which the unemployed laborers of his district accepted the work offered to them by the city council of Blackburn pursuant to the Public Works Act. A greater contrast could hardly be imagined than that between the cotton spinner, who formerly worked as a skilled man in the factory, and the day-laborer, who now works in a depth of 14 or 18 feet on a drainage canal.

(They earned thereby about 4 to 12 sh. per week, according to the size of their families, and this last enormous amount had to provide sometimes for a family of eight. The gentlemen of the bourgeoisie derived a double profit from this. In the first place, they secured money for the improvement of their smoky and neglected cities at exceptionally low interest. In the second place, they paid wages to the laborers at a scale far below the ordinary.) Mr. Henderson thinks that this ready willingness on the part of the laborers to accept the offered employment implied great self-denial and consideration, and deserved all honor, since they were accustomed to an almost tropical temperature, to work in which skill and accuracy counted for more than muscular strength, and to wages which were double, or sometimes treble, of what they could earn now. In Blackburn the men were tried at all possible kinds of labor in the open air. They dug through a stiff and heavy clay soil to a considerable depth, they did drainage work, broke stones, built roads, made excavations for street canals to a depth of 14, 16, and sometimes 20 feet. Frequently they stood in mud and water from 10 to 12 inches deep, and they were exposed to a climate whose wet cold was not exceeded, or perhaps not equalled, in any other district of England. (Pages 91 and 92.) The attitude of the laborers has been almost faultless, their willingness to accept work in the open air and to get along on it. (Page 69.)
I.VI.80

1864. April. Occasionally complaints about lack of laborers are heard in various districts, especially in certain branches, for instance weaving. But these complaints are due as much to the low wages which the laborers may earn in consequence of the bad kinds of yarn as to an actual scarcity of laborers in this particular line. Numerous disputes over wages took place during the preceding month between some manufacturers and their laborers. The inspector regrets that strikes occurred far too frequently. The effect of the Public Works Act is now resented by the manufacturers as a competition, and as a result the local committee of Bacup has suspended its activity. For although all the factories are not yet running, there has already been a lack of laborers. (Factory Report, April, 1864, pages 9 and 10.) It was indeed high time for the manufacturers to act. In consequence of the Public Works Act the demand for laborers grew so much that many a factory hand was making 4 to 5 shillings per day in the quarries of Bacup. And so the public works were gradually suspended; this new edition of the Ateliers nationeaux of 1848, which had this time been opened in the interests of the bourgeoisie.

Trying it on the Dog

I.VI.81

Although the very reduced wages (of the fully employed), the actual earnings of the laborers in the different factories, have been given, it

does not follow that they earn the same amount week after week. The laborers are exposed to great fluctuations at this place, in consequence of the continual experiments made by the manufacturers with different kinds and proportions of cotton and waste in the same factory. The "Mixtures," as they are called, are frequently changed, and the earnings of the laborers rise and fall with the quality of cotton mixtures. At times they earned only 15% of their former wages, and in one or a couple of weeks wages fell to 50 or 60%. Inspector Redgrave, who makes this report, then proceeds to figures of wages selected from practical life. The following examples may suffice:
I.VI.82

A, weaver, family of 6 persons, employed 4 days in the week, 6 sh. 8.5 d.; B, twister, 4.5 days per week, 6 sh.; C, weaver, family of 4, 5 days per week, 5 sh. 1 d.; D, slubber, family of 6, employed 4 days per week, 7 sh. 10 d.; E, weaver, family of 7, employed 3 days, 5 sh., etc. Redgrave continues in substance: These data deserve attention, for they prove that labor would become a misfortune in some families, since it reduces not only the earnings, but depresses them so low that they become totally insufficient to satisfy anything but a small part of a family's absolute necessities, unless additional assistance were given in cases where the earnings of a family do not reach the amount which would be granted to them if all of them were unemployed. (Factory Reports, October, 1863, pages 50-53.)

I.VI.83

In no week since June 5, 1863, has the average total employment of all laborers been more than 7 hours and some minutes. (Page 121.)
I.VI.84

From the beginning of the crisis to March 23, 1863, nearly three million pounds sterling were expended by the poor boards, the central committee of charity, and the London Mansion House committee. (Page 13.)
I.VI.85

In one district, in which perhaps the finest yarn is spun, the spinners suffer an indirect reduction of wages of 15% as a result of passing from Sea Island to Egyptian cotton.
I.VI.86

In one extended district, in which cotton waste is used in large quantities as an admixture to Indian cotton, the spinners have had their wages reduced by 5%, and lost besides from 20 to 30% by working up Surat and waste. The weavers have dropped from four looms to two. In 1860 they made 5 sh. 7 d. on each loom, but in 1863 only 3 sh. 4 d. The fines, which amounted to from 3 to 6 d. per spinner on American cotton, now run as high as 1 sh. to 3 sh. 6 d. In one district, in which Egyptian cotton was used, mixed with

East-Indian, the average earnings of the mule spinners in 1860 was from 18 to 25 sh., while it is only from 10 to 18 sh. now. This not exclusively due to deteriorated cotton, but also to the decreased speed of the mule, in order to give to the yarn a stronger twist, for which extra payment according to the wage scale would have been made in ordinary times. (Pages 43, 44, 45-50.) Although East-Indian cotton may have been worked here and there at a profit for the manufacturers, the wage list on page 53 shows that the laborers suffer from it, compared with 1861. If the use of Surat becomes a settled fact, the laborers would demand the same wages as in 1857. But this would seriously affect the profits of the manufacturers, unless it would be balanced by the price of either the cotton or the products. (Page 105.)
I.VI.87

House-Rent. The house-rent of the laborers living in cottages belonging to the manufacturers, is frequently deducted from their wages, even if only short time is worked. Nevertheless the value of these buildings has fallen, and the cottages are now from 25 to 50% cheaper than formerly. A cottage which formerly rented from 3 sh. 6 d. per week, may now be had for 2 sh. 4d., and sometimes for less. (Page 57.)
I.VI.88

Emigration. The employers were, of course, opposed to the emigration of the laborers, in the first place because they wished, in the expectation of better times in the cotton industry, to keep the means at hand for the profitable operation of their factories. In the second place some employers are owners of cottages in which their employes are to live, and at least some of them calculate without fail to collect at least a portion of the rent due them. (Page 96.)
I.VI.89

Mr. Bernall Osborne says in a speech to his parliamentary constituents, on October 22, 1864, that the laborers of Lancashire had behaved like ancient stoic philosophers. Perhaps they acted like sheep?

Notes for this chapter

13.
The Factory Question and the Ten Hours Bill. By R. H. Greg. London, 1837, page 115.
14.
The report makes a mistake in the last sentence. Instead of 6d. for loss, through waste, only 3d. should be allowed. This loss amounts indeed to 25% with Indian, but only to 12½ to 15% with American cotton, and this last kind is meant, the same percentage being correctly stated for the price of 5 to 6d. It is true, however, that the percentage of waste increased at times considerably, for American

cotton brought to Europe during the closing years of the Civil War.‘F. E.

15.

For illustrations see Babbage, among others. The usual expedient, a reduction of wages, is employed also in this instance, and so this continual depreciation works out quite contrary to the dreams of the harmonious brain of Mr. Carey.

16.

Since the above was written (1865), competition on the world-market has been considerably intensified by the rapid development of industry in all civilized countries, especially in America and Germany. The fact that the rapidly and enormously growing productive forces grow beyond the control of the laws of the capitalist mode of exchanging commodities, inside of which they are supposed to move, this fact impresses itself nowadays more and more even on the minds of the capitalists. This is shown especially by two symptoms. First, by the new and general mania for a protective tariff, which differs from the old protectionism especially by the fact that now the articles which are capable of being exported are the best protected. In the second place it is shown by the trusts of manufacturers of whole spheres of production for the regulation of production, and thus of prices and profits. It goes without saying that these experiments are practicable only so long as the economic weather is relatively favorable. The first storm must upset them and prove, that, although production assuredly needs regulation, it is certainly not the capitalist class which is fitted

for that task. Meanwhile the trusts have no other mission but to see to it that the little fish are swallowed by the big fish still more rapidly than before.‘F. E.

17.

It goes without saying that we do not, with Mr. Baker, explain the wool crisis of 1857 out of the disproportion between the raw material and the product. This disproportion was itself but a symptom, and the crisis was general.‘F. E.

18.

A careful distinction is made in England between the woollen manufacture, which spins carded yarn from short wool and weaves it (main centre Leeds), and the worsted manufacture, which makes worsted yarn from long wool and weaves it (main seat Bradford, in Yorkshire).‘F. E.

19.

This rapid expansion of the manufacture of linen yarn by machinery, in Ireland, gave the death-blow to the exportation of the linen made of hand-made yarn in Germany (Silesia, Lusatia, and Westphalia).‘F. E.

Part I,

Volume III Chapter VII ADDITIONAL REMARKS.

I.VII.1

TAKE it, in accordance with the assumption on which this section is based, that the mass of profit appropriated in any particular sphere of production is equal to the sum of the surplus-values produced by the total capital invested in this sphere. Nevertheless the bourgeois will not consider his profit as identical with the surplus-value, that is to say, with unpaid surplus-labor. And he will do so, for the following reasons.
I.VII.2

1) He forgets the process of production in the process of circulation. He is of the opinion that surplus-value is made by his realisation on the value of commodities, which includes realisation on their surplus-value. [There is a blank at this place, indicating that Marx intended to dwell in detail on this point.‘F. E.]
I.VII.3

2) Assuming a uniform degree of exploitation, we have seen that the rate of profit may differ considerably according to the relative cheapness or dearness of raw materials and the experience of the buyer, according to the relative productivity, efficacy, and cheapness of the machinery employed, according to the greater or lesser perfection of the general equipment of the various stages of the productive process, the simplicity and effectiveness of the management, etc.; all this without reference to any modifications due to the credit-system, to the mutual cheating of the capitalists among themselves, to any

favorable choice of the market. In short, given the surplus-value for a certain capital, it depends still very much on the individual business ability of the capitalist, or of his managers and salesmen, whether this same surplus-value realises a greater or smaller rate of profit and thus yields a greater or smaller mass of profit. The same surplus-value of 1,000 p.st., a product of 1,000 p.st. of wages, may be calculated in the business of A on 9,000 p.st., in the business of B on 11,000 p.st. of constant capital. In the case of A we have then p' = 1000/ 10,000, or 10%. In the case of B we have p' = 1000/ 12,000, or 8 1/ 3%. The total capital produces relatively more profit in the business of A than in that of B, although the variable capital advanced in either case is 1,000 p.st., and the surplus-value produced by it likewise 1,000 p.st., so that there is in both cases the same degree of exploitation of the same number of laborers. This difference in the materialisation of the same mass of surplus-value, or the difference in the rates of profit, may also be due to other causes. Still, it may be due wholly to a difference in business ability in both establishments. And this fact leads the capitalist to the conviction that his profits are due, not to the exploitation of labor, but at least, in part, to other circumstances independent of that exploitation, particularly to his individual activity.

I.VII.4

The analyses of this part of the work demonstrate the erroneousness of the view (Rodbertus) according to which (in distinction from ground-rent, in the case of which the area of real-estate is said to remain the same and yet to produce a higher rent) a change in the magnitude of a certain capital is said to have no influence on the proportion of profit to capital, and thus on the rate of profit, on the assumption that the mass of capital, on which profits are calculated, grows simultaneously with the mass of profits, and vice versa.
I.VII.5

This is true only in two cases. In the first place, it is true, assuming all other circumstances, especially the rate of surplus-value, to remain unchanged, if there is a change in the value of that commodity which is a money-commodity. (The same occurs in the case of a merely nominal change of value, the rise or fall of mere tokens of value while other circumstances remain the same.) Take it that the total capital amounts to 100 p.st., with a profit of 20 p.st., so that the rate of profit is 20%. Now, if gold rises or falls by 50%, the same capital, in the first eventuality, will be worth 150 p.st., which was previously worth only 100 p.st., and the profit will be worth 30 p.st., that is to say, it will be worth that much in money instead of 20 p.st., as before. In the second eventuality, the capital of 100 p.st. will be worth only 50 p.st., and the profit will be represented by the value of 10 p.st. But in either case 150 : 30 = 50 : 10 = 100 : 20 = 20%. But in all these cases there would have been no actual change in the

magnitude of capital-value, but only in the money-expression of the same value and the same surplus-value. For this reason s/C, or the rate of profit, could not be affected.
I.VII.6

The second case is that in which an actual change of magnitude takes place in the value, but without being accompanied by a change in the proportion of v to c, in other words, when the rate of surplus-value remains the same and the proportion of the variable capital invested in labor-power (considered as an index of the amount of labor-power set in motion) to the constant capital invested in means of production remains the same. Under these circumstances, we may have C, or nC, or C/n, for instance 1,000, or 2,000, or 500. If the rate of profit is 20%, the profit will be 200 in the first case, 400 in the second, and 100 in the third. But 200 : 1,000 = 400 : 2,000 = 100 : 500 = 20%, that is to say the rate of profit remains unchanged, because the composition of capital remains the same and is not effected by its change of magnitude. An increase or decrease in the mass of profit shows therefore merely an increase or decrease in the magnitude of the invested capital.
I.VII.7

In the first case, then, there is but seemingly a change in the magnitude of the employed capital, while in the second case there is an actual change of magnitude, but no change in the organic

composition of the capital, that is to say, in the relative proportions of the variable and constant portions. With the exception of these two cases, a change in the magnitude of the employed capital is either the result of a preceding change of value in one of the components of capital, and therefore of a change in the relative magnitudes of these components (unless the surplus-value itself varies with the variable capital); or, this change of magnitude (for instance in the case of enterprises on a large scale, the introduction of new machinery, etc.) is the cause of a change in the relative magnitudes of the organic components of capital. In all these cases, other circumstances remaining unchanged, a change in the magnitude of the employed capital must be accompanied simultaneously by a change in the rate of profit.

I.VII.8

An increase in the rate of profit is always due to a relative or absolute increase of the surplus-value in proportion to its cost of production, for instance to the advanced total capital, or to a decrease in the difference between the rate of profit and the rate of surplus-value.

I.VII.9

Fluctuations in the rate of profit, independently of changes in the organic components of capital, or of the absolute magnitude of the

capital, may occur through a rise or fall of the value of the advanced capital, whether it be fixed or circulating, caused by a prolongation or reduction of the working time required for its reproduction, this change in the working time taking place independently of already existing capital. The value of every commodity, including the commodities of which capital consists, is determined, not by the necessary labor-time contained in it individually, but by the social labor-time necessary for its reproduction. This reproduction may take place under aggravating or under propitious circumstances, which differ from the conditions of original production. If it takes under altered conditions double the time, or half as much time, to reproduce the same material capital, and if the value of money remained unchanged, then a capital formerly worth 100 p.st. would be worth 200 p.st. or 50 p.st. If this appreciation or depreciation were to affect all parts of capital uniformly, then the profit would also be expressed correspondingly in double, or half, the amount of money. But if appreciation or depreciation imply a change in the organic composition of capital, if they imply a raising or lowering of the proportion between the variable and constant portions of capital, then the rate of profit, other circumstances remaining the same, will grow with a relatively growing, and fall with a relatively falling, variable capital. If only the money-value of the advanced capital rises or falls (in consequence of a change in the valuation of money) then the money-value of the surplus-value rises or falls in the same proportion. The rate of profit remains unchanged.

PART II.

CONVERSION OF PROFIT INTO AVERAGE PROFIT.

Part II,

Volume III Chapter VIII. DIFFERENT COMPOSITION OF CAPITALS IN DIFFERENT LINES OF PRODUCTION AND RESULTING DIFFERENCES IN THE RATES OF PROFIT.

II.VIII.1

IN the preceding part we demonstrated among other things that the rate of profit may vary, may rise or fall, while the rate of surplus-value remains the same. In the present chapter we assume that the intensity of exploitation, and therefore the rate of surplus-value and the length of the working day, are the same in all spheres of production into which the social labor of a certain country is divided. Adam Smith has already shown explicitly that many differences in the exploitation of labor in different spheres of production balance one another by many actual causes, or causes regarded as such by prevailing prejudices, so that they are mere evanescent distinctions and are of no moment in this calculation. Other differences, for instance those in the scale of wages, rest largely on the difference between simple and complicated labor, mentioned in the beginning of volume I, which do not affect the intensity of exploitation in the

different spheres of production, although they render the conditions of the laborers in those spheres very unequal. For instance, if the labor of a goldsmith is paid better than that of a day-laborer, the surplus-labor of the goldsmith produces correspondingly more surplus-value than that of the day-laborer. And while the compensation of wages and working days, and thereby of the rates of surplus-value, between different spheres of production, or even different investments of capital in the same sphere of production, is checked by many local obstacles, it is nevertheless accomplished at an increasing degree with the advance of capitalist production and the subordination of all economic conditions under this mode of production. The study of such frictions, while quite important for any special work on wages, may be dispensed with as being accidental and unessential in a general analysis of capitalist production. In such a general analysis it is always assumed that the actual conditions correspond to the terms used to express them, or, in other words, that actual conditions are represented only to the extent that they are typical of their own case. II.VIII.2

The difference in the rates of surplus-value in different countries, and consequently in the degree of national exploitation of labor, is immaterial for our present analysis. For we desire to analyse precisely the way in which a general rate of profit is brought about in a certain country. It is evident, however, that a comparison of the various national rates of profit requires but a collation of previous analyses

with that which is to follow. First consider the differences in the national rates of surplus-value, then compare on this basis the differences in the national rates of profit. Those differences which are not due to differences in the national rates of surplus-value, must be due to circumstances in which the surplus-value is assumed to be universally the same, constant, as it is in the analysis of this chapter. II.VIII.3

We demonstrated in the preceding chapter that, assuming the rate of surplus-value to be constant, the rate of profit may rise or fall in consequence of circumstances which raise or lower the value of one or the other parts of constant capital, and so affect the proportion between the variable and constant components of capital in general. We observed, furthermore, that circumstances which prolong or reduce the time of turn-over of a certain capital may also influence the rate of profit in a similar manner. Since the mass of profits is identical with the mass of surplus-value, the surplus-value itself, it was also seen that the mass of profits, in distinction from the rate of profits, was not touched by the aforementioned fluctuations of value. These fluctuations modified merely the rate through which a certain surplus-value, and therefore a profit of a given magnitude, express themselves, in other words, they indicate the relative magnitude of surplus-value, or profits, as compared with the magnitude of the advanced capital. To the extent that capital was released or tied up by such fluctuations of value, it was not only the rate of profit, but

the profit itself, which could be affected by this indirect route. However, this always applied only to such capital as was already engaged, not to new investments about to be made. Besides, the increase or reduction of profit always depended on the extent to which the same capital could set in motion more or less labor in consequence of such fluctuations of value, in other words, the extent to which the same capital, with the same rate of surplus-value, could obtain a larger or smaller amount of surplus-value. So far from contradicting the general rule, or being an exception from it, this seeming exception was really but a special case in the application of the general rule.

II.VIII.4

It was seen in the preceding part, that the rate of profit varied, when the degree of exploitation was constant while the value of the component parts of constant capital, and the time of turn-over of capital, changed. The obvious conclusion from this was that the rates of profit of different spheres of production existing simultaneously side by side had to differ, when, other circumstances remaining unchanged, the time of turn-over of the invested capitals differed, or when the proportions of the values of the organic components of these capitals were different in the different lines of production. That which we previously regarded as changes occurring successively in the same capital will now be considered as simultaneous differences of

contemporaneous investments of capital in different spheres of production.
II.VIII.5

Under these circumstances we shall have to analyse: 1) The differences in the organic composition of capitals. 2) The differences in their times of turn-over.
II.VIII.6

The natural premise in this entire analysis is that, in speaking of the composition, or of the turn-over, of a capital in a certain line of production, we always mean the average normal proportions of the capital invested in this line, or, more generally, of the average of the total capital invested in this sphere, not of the temporary differences of the individual capitals in it.
II.VIII.7

Since our assumption is, furthermore, that the rate of surplus-value and the working day are constant, and since this assumption implies also the constancy of wages, it follows that a certain quantity of variable capital expresses a definite quantity of exploited labor-power and therefore a definite quantity of materialised labor. In other words, if 100 p.st. represent the weekly wages of 100 laborers, indicating 100 actual labor-powers, then n times 100 p.st. indicates the labor-powers of n times 100 laborers, and 100/n p.st. those of 100/n

laborers. The variable capital serves here, as is always the case when the wages are given, as an index of the amount of labor set in motion by a definite total capital. Differences in the magnitude of the employed variable capitals serve, therefore, as indices of the differences in the amount of labor-power set in motion. If 100 p.st. indicate 100 laborers per week, representing 6,000 working hours, if the weekly working time is 60 hours, then 200 p.st. indicate 12,000, and 50 p.st. indicate 3,000 working hours.
II.VIII.8

By the composition of capital we mean, as we have stated in volume I, the proportions of its active and passive parts, of variable and constant capital. Two proportions require consideration under this heading. They are not equally important, although they may produce the same effects under certain circumstances.
II.VIII.9

The first proportion rests on a technical basis, and must be considered as existing at a certain stage of development of the productive forces. A definite quantity of labor-power, represented by a definite number of laborers, is required for the purpose of producing a definite quantity of products, for instance in one day, and thereby to consume productively, by setting in motion, a definite quantity of means of production, machinery, raw materials, etc. A definite number of laborers corresponds to a definite quantity of means of production, so

that a definite quantity of living labor corresponds to a definite quantity of materialised labor in means of production. This proportion differs a great deal in different spheres of production, and frequently even in different branches of one and the same industry. On the other hand, it may occasionally be entirely or approximately the same in widely separated lines of industry.
II.VIII.10

This proportion forms the technical composition of capital and is the primary basis of its organic composition.
II.VIII.11

However, it is possible that this first proportion may be the same in different lines of industry, provided that the variable capital is merely an index of labor-power, and the constant capital merely an index of the mass of means of production set in motion by the labor-power. For instance, certain work in copper and iron may be conditioned on the same proportional composition between labor-power and the mass of means of production. But since copper is more expensive than iron, the proportion of value between variable and constant capital may be different in either case, and then the composition of the value of the total capitals is, of course, likewise different. The difference between the technical composition and the composition of values is manifested by each branch of industry by the fact that the proportion of the values of the two parts of capital may vary while the technical

composition is constant, and the proportion of values may remain the same while the technical composition varies. This last eventuality will, of course, be possible only if the change in the proportion of the employed masses of means of production and labor-power is compensated by an opposite change in their values.
II.VIII.12

The composition of the values of capital, which is determined by, and reflects, its technical composition, is called the organic composition of capital.*20
II.VIII.13

We assume, then, that the variable capital is the index of a definite quantity of laborers, or of labor-power, or a definite quantity of living labor set in motion. We saw in the preceding part that a change in the magnitude of the value of variable capital might eventually indicate nothing but a higher or lower price of the same mass of labor. But here, where the rate of surplus-value and the working day have been assumed to be constant, and the wages for a definite working time are given, this is out of the question. On the other hand, a difference in the magnitude of the constant capital may likewise be an index of a change in the mass of means of production set in motion by a definite quantity of labor-power. Still, it may also be due to a difference in value between the means of production set

in motion in one sphere and those of another. Both points of view must be considered here.
II.VIII.14

Finally, the following essential facts must be taken into account:
II.VIII.15

Take it that 100 p.st. are the weekly wages of 100 laborers. Take it that the working hours are 60 per week. Take it, furthermore, that the rate of surplus-value is 100%. In that case, the laborers work 30 of the 60 hours for themselves, and 30 hours gratis for the capitalist. In fact, those 100 p.st. of wages represent only 30 working hours of those 100 laborers, or a total of 3,000 working hours, while the other 3,000 hours worked by the laborers are incorporated in the 100 p.st. of surplus-value, or as profit, pocketed by the capitalist. Although the wages of 100 p.st. do not express the value in which the weekly labor of those 100 laborers is materialised, still they indicate (since the length of the working day and the rate of surplus-value are given) that this capital set in motion 100 laborers for 6,000 working hours. The capital of 100 p.st. indicates this, first, because it indicates the number of laborers set in motion, since one pound sterling stands for one laborer per week, and 100 p.st. for 100 laborers per week; and in the second place, because every laborer set in motion performs twice the work for which his wages pay, at the given rate of surplus-value of 100%, so that one pound sterling, his wages, the expression

of half a week of labor, actually set in motion one whole week's labor, and in the same way 100 p.st., although they pay only for 50 weeks of labor, set in motion 100 weeks of labor. There is, then, an essential difference between variable capital so far as its value, invested as a wages-capital, represents a certain sum of wages, a definite quantity of materialised labor, and variable capital so far as its value is a mere index of the quantity of living labor set in motion by it. This last-named labor is always greater than that incorporated in the variable capital, and is, therefore, represented by a greater value than that of the variable capital. This greater value is determined on one hand by the number of laborers set in motion by the variable capital, and on the other by the quantity of surplus-labor performed by them.
II.VIII.16

This mode of looking upon variable capital leads to the following conclusions:
II.VIII.17

When a capital invested in the sphere of production A expends only 100 in variable capital for each 700 of total capital, leaving 600 for constant capital, while a capital invested in the sphere of production B expends 600 for variable and only 100 for constant capital, then the capital of 700 in A will set in motion only 100 of labor-power, or, in terms of our previous assumption, 100 weeks of labor, or 6,000 hours

of living labor, while the same amount of capital in B will set in motion 600 weeks of labor or 36,000 hours of living labor. The capital in A would then appropriate only 50 weeks of labor, or 3,000 hours of surplus-labor, while the same amount of capital in B would appropriate 300 weeks of labor, or 18,000 hours. The variable capital is the index, not only of the labor embodied in it, but also, when the rate of surplus-value is known, of the labor set in motion over and above that embodied in itself, in other words, of the surplus-labor. With the same intensity of exploitation, the profit in the first case would be 100/700, or 1/7, or 14 2/7%, and in the second case 600/700, or 6/7, or 85 5/7%, six times the rate of profit of the first. In this case, the profit itself would actually be six times that of A, 600 in B as against 100 in A, because the same capital set in motion six times the quantity of living labor, which, with the same degree of exploitation, means six times as much surplus-value and thus six times as much profit.

II.VIII.18

If the capital invested in A were not 700, but 7,000 p.st., while that invested in B were only 700 p.st., and the organic composition of both were to remain the same, then the capital in A would expend 1,000 p.st. of the 7,000 as variable capital, that is to say, it would employ 1,000 laborers per week at 60,000 hours of living labor, of which 30,000 would be surplus-labor. But yet each 700 p.st. of the capital in A would continue to set in motion only one-sixth of the

surplus-labor of the capital in B, and produce only one-sixth of the profit of this capital. If we consider the rate of profit, then 1000/7000, or 100/700, or 14 2/7%, would be the rate of the capital in A, compared with 600/700, or 85 5/7%, of the capital in B. Taking equal amounts of capital for comparison, the rates of profit differ here, because the masses of surplus-value, and thus of profits, differ, although the rates of surplus-value are the same, owing to the different masses of living labor set in motion.
II.VIII.19

The same result follows, if the technical conditions are the same in both spheres of production, while the value of the elements of constant capital is greater or smaller in the one than in the other. Let us assume that both invest 100 p.st. in variable capital and employ 100 laborers per week, which set in motion the same quantity of machinery and raw materials. But let the last-named elements of production be more expensive in B than in A. For instance, let the 100 p.st. of variable capital in A set in motion 200 p.st. of constant capital, and in B 400 p.st. of constant capital. With the same rate of surplus-value, 100%, the surplus-value produced is in either case 100 p.st. Hence the profit is also 100 p.st. But the rate of profit in A is 100/200 c 100 v, or 1/3, or 33 1/3%, while in B it is 100/400 c 100 v, or 1/5, or 20%. In fact, if we select a certain aliquot part of the total capital from either side, we find that every 100 p.st. in B sets aside only 20 p.st., or one-fifth, for variable capital, while every

100 p.st. in A sets aside 33 1/3% p.st., or one-third, for this purpose. B produces less profit to each 100 p.st., because it sets in motion less living labor than A. The difference in the rates of profits resolves itself once more, in this case, into a difference of the masses of surplus-value, and thus masses of profit, produced per each 100 of capital invested.
II.VIII.20

The difference of this second example from the first is just this: The compensation between A and B, in the second case, would require only a change in the value of the constant capital of either A or B, provided the technical basis remained the same. But in the first case, the technical basis itself is different, and would have to be revolutionised in order to consummate a compensation.
II.VIII.21

The different organic composition of various capitals, then, is independent of their absolute magnitude. It is always but a question of what part of every 100 is variable and what part constant.
II.VIII.22

Capitals of different magnitude, calculated in percentages, or, what amounts to the same in this case, capitals of the same magnitude, working with the same working time and the same degree of exploitation, may produce considerably different amounts of surplus-

value, and thus of profit, for the reason that a difference in the organic composition of capital in different spheres of production implies a difference in their variable parts, and thus a difference in the quantities of living labor set in motion by them, which implies a difference in the quantities of surplus-labor appropriated by them. And this surplus-labor is the substance of surplus-value and of profit. Equal portions of the total capital in the various spheres of production comprise the sources of unequal portions of surplus-value, and the only source of surplus-value is living labor. With the same degree of labor-exploitation the mass of labor set in motion by a capital of 100, and consequently the mass of surplus-value appropriated by it, depend on the magnitude of its variable component. If a capital, consisting of percentages of 90 c + 10 v, produced as much surplus-value, or profit, with the same degree of exploitation, as a capital consisting of percentages of 10 c + 90 v, then it would be as plain as daylight that the surplus-value, and value in general, must have an entirely different source than labor, and that political economy would then be without a rational basis. If we assume continually that one pound sterling stands for the weekly wages of a laborer working 60 hours, and that the rate of surplus-value is 100%, then it is evident that the total product in values which one laborer can supply in one week, is 2 p.st. Then 10 laborers cannot supply more than 20 p.st. And since 10 p.st. of the 20 reproduce the wages, those 10 laborers cannot produce any more surplus-value than 10 p.st. On the other hand the 90 laborers, whose total product is 180 p.st., and whose wages

amount to 90 p.st., produce a surplus-value of 90 p.st. The rate of profit in the one case would be 10%, in the other 90%. If matters were different, then value and surplus-value would be something else than materialised labor. Seeing, then, that capitals in different spheres of production, calculated in percentages‘or capitals of equal magnitude‘ are differently divided into variable and constant capital, so that they set in motion unequal quantities of living labor and produce different surplus-values, and profits, it follows that the rate of profit, which consists precisely of the calculation of the percentage of surplus-value on the total capital, must also differ.
II.VIII.23

Now, if capitals in different spheres of production, calculated in percentages, in other words, capitals of equal magnitude, produce unequal profits in different spheres of production, in consequence of their different organic composition, then it follows that the profits of unequal capitals in different spheres of production cannot be proportional to the magnitude of their respective capitals, or, in slightly different words, profits in different spheres of production are not proportional to the magnitude of the respective capitals invested in them. For if profits were to grow at the rate of the investment of capital, it would mean that the percentage of profits was the same, so that capitals of equal magnitude in different spheres of production would have equal rates of profit, in spite of their different organic composition. Only within the same sphere of production, in which the

organic composition of capital is known, or in different spheres of production with the same organic composition of capitals, do the masses of profits stand in direct ratio to the masses of capitals invested. To say that the profits of capitals of different magnitude are proportional to their magnitudes is only another way of saying that capitals of equal magnitude yield equal profits, or that the rate of profits is the same for all capitals, whatever may be their organic composition and their magnitude.
II.VIII.24

These statements hold good on the assumption that the commodities are sold at their values. The value of a commodity is equal to the value of the constant capital contained in it, plus the value of the variable capital reproduced in it, plus the increment of this variable capital, which increment is the surplus-value. With the same rate of surplus-value, its mass evidently depends on the mass of the variable capital. The value of the product of a capital of 100 is in the one case 90 c + 10 v + 10 s, or 110, in the other 10 c + 90 v + 90 s, or 190. If the commodities are sold at their values, then the first product is sold at 110, of which 10 represent surplus-value, or unpaid labor; the second product is sold at 190, of which 90 represent surplus-value, or unpaid labor.
II.VIII.25

This is especially important when international rates of profit are compared with one another. Let us assume that the rate of surplus-value in some European country is 100%, so that the laborer works one-half of the working day for himself and the other half for his employer. Let us assume, furthermore, that the rate of profit in some Asiatic country is 25%, so that the laborer works four-fifths of the working day for himself, and one-fifth for his employer. Let the composition of the national capital in the European country be 84 c + 16 v, that of the national capital of the Asiatic country, where little machinery, etc., is used, and a given quantity of labor-power consumes relatively little raw material productively in a given time, 16 c + 84 v. Then we have the following calculation:
II.VIII.26

In the European country: Value of product 84 c + 16 v + 16 s, or 116; rate of profit 16/100, or 16%.
II.VIII.27

In the Asiatic country: Value of product 16 c + 84 v + 21 s, or 121; rate of profit 21/100, or 21%.
II.VIII.28

The rate of profit in the Asiatic country is higher by more than 25% than in the European country, although the rate of surplus-value is

four times smaller in the former than in the latter. Men like Carey, Bastiat, and others, would come to the opposite conclusion.
II.VIII.29

By the way, different national rates of profit will generally be based on different national rates of surplus-value. But we compare in this chapter unequal rates of profit resting on the same rate of surplus-value.
II.VIII.30

Aside from differences of organic composition of capitals, which imply different masses of labor, and consequently, other circumstances remaining the same, of surplus-labor, which set in motion capitals of the same magnitude in different spheres of production, there is still another source for the inequality of rates of profit. This is the different length of the time of turn-over of capital in different spheres of production. We have seen in chapter IV that, other circumstances being the same, the rates of profits of capitals of the same organic composition are proportioned inversely as their times of turn-over. We have also seen that the same variable capital, if turned over in different periods of time, produces unequal masses of annual surplus-value. The difference of the times of turn-over, then, is another reason why capitals of the same magnitude in different spheres of production do not produce equal profits in equal times, and why the rates of profit in these different spheres differ.

On the other hand, the proportional composition of capitals as to fixed and circulating capital does not in itself affect the rate of profit. It can affect this rate only in the case that this difference in composition either coincides with a different proportion of the variable and constant parts so that the difference in the rate of profit is due to this difference in organic composition, and not to the different proportions between fixed and circulating capital; or, if the difference in the proportion of fixed and circulating capital is responsible for a difference in the time of turn-over, during which a certain profit is realised. If capitals are divided into fixed and circulating capital in different proportions, it will, of course, always have an influence on the time of turn-over and cause differences in it. But this does not imply that the time of turn-over, in which the same capitals realise certain profits, is different. For instance, A may have to convert the greater part of its product continually into raw materials, etc., while B may use the same machinery, etc., for a longer time, and need less raw material, but both A and B have a part of their capital engaged so long as they are producing; the one in raw materials, that is to say circulating capital, the other in machinery, etc., or fixed capital. The capitalist in A continually converts a portion of his capital from commodities into money, and this into raw materials, while the capitalist in B employs a portion of his capital for a longer time as an instrument of labor without any such conversions. If both of them

employ the same amount of labor, they will sell masses of products of unequal value during the year, but both masses of products will contain the same amount of surplus-value, and their rates of profit, calculated on the entire capital invested, will be the same, although their proportional composition of fixed and circulating capital, and their times of turn-over, are different. Both capitals realise equal profits in equal times, although they are turned over in different periods of time.*21 The difference in the time of turn-over has in itself no importance except so far as it affects the mass of surplus-value which may be appropriated and realized by the same capital in a certain time. Seeing that a different distribution of the fixed and circulating capital of A and B does not necessarily imply a different time of turn-over, which would in its turn imply a different rate of profit, it is evident, if there is such a difference in the rates of profit of A and B, that it is not due to a difference in the proportions of fixed and circulating capital as such, but rather to the fact that these different proportions indicate an inequality in the times of turn-over affecting the rates of profit.
II.VIII.32

It follows, then, that a difference in the composition of capitals in various lines of production, referring to their fixed and circulating portions, has in itself no bearing on the rate of profit, since it is the proportion between the constant and variable capital which decides this question, and since the value of the constant capital, and its

relative magnitude as compared to that of the variable, is quite independent of the fixed or circulating nature of its components. But it will be found‘and this is one of the causes of wrong conclusions‘that whenever fixed capital is considerably developed, it is but an expression of the fact that production is carried on at a large scale, so that the constant capital far outweighs the variable, or the living labor-power employed is trifling compared to the mass of the means of production set in motion by it.
II.VIII.33

We have demonstrated, that different lines of industry may have different rates of profit, corresponding to differences in the organic composition of capitals, and, within the limits indicated, also corresponding to different times of turn-over; the law (as a general tendency) that profits are proportioned as the magnitudes of the capitals, or that capitals of equal magnitude yield equal profits in equal times, applies only to capitals of the same organic composition, with the same rate of surplus-value, and the same time of turn-over. And these statements hold good on the assumption, which has been the basis of all our analyses so far, namely that the commodities are sold at their values. On the other hand there is no doubt that, aside from unessential, accidental, and mutually compensating distinctions, a difference in the average rate of profit of the various lines of industry does not exist in reality, and could not exist without abolishing the entire system of capitalist production. It would seem, then, as though

the theory of value were irreconcilable at this point with the actual process, irreconcilable with the real phenomena of production, so that we should have to give up the attempt to understand these phenomena.
II.VIII.34

It follows from the first part of this volume that the cost-prices are the same for the products of different spheres of production, in which equal portions of capital have been invested for purposes of production, regardless of the organic composition of such capitals. The cost-price does not show the distinction between variable and constant capital to the capitalist. A commodity for which he must advance 100 p.st. in production cost him the same amount, whether he invests 90 c + 10 v, or 10 c + 90 v. He always spends 100 p.st. for it, no more, no less. The cost-prices are the same for investments of the same amounts of capital in different spheres, no matter how much the produced values and surplus-values may differ. The equality of cost-prices is the basis for the competition of the invested capitals, by which an average rate of profit is brought about.

Notes for this chapter

20.
The above is briefly developed in the third edition of volume I, in the beginning of chapter XXV. Since the two first editions did not contain

this passage, it was so much more necessary to repeat it at this place.‘F. E.

21.

It follows from chapter IV that the above statement is correct only in the ease that the capitals of A and B are differently composed so far as their values are concerned, but that the percentages of their variable capitals are proportioned as their times of turn-over, or inversely as their numbers of turn-over. Let capital A have the following percentages of composition: 20 c fixed and 70 c circulating, a total of 90 c, so that the total capital is 90 c + 10 v, or 100. At a rate or surplus value of 100% the 10 v produce in one turn-over 10 s, making the rate of profit for one turn-over 10%. Let capital B have the composition 60 C fixed and 20c circulating, so that we have 80 c + 20 v, or 100. The 20 v produce in one turn-over, at the above rate of surplus-value, 20 s, making the rate of profit for one turn-over 20%, which is double that of A. But if A is turned over twice per year, and B only once, then 2 × 10 also make 20 per year, and the annual rate of profit is the same for both, namely 20%.‘F. E.

Part II,

Volume III Chapter IX FORMATION OF A GENERAL RATE OF PROFIT (AVERAGE RATE OF PROFIT) AND TRANSFORMATION OF THE VALUES OF COMMODITIES INTO PRICES OF PRODUCTION

II.IX.1

THE organic composition of capital depends at each stage on two circumstances: First, on the technical relation of the employed labor-power to the mass of the employed means of production; secondly, on the price of these means of production. We have seen that this composition must be considered according to its percentages. We express the organic composition of a certain capital, consisting of four-fifths of constant, and one-fifth of variable capital, by the formula 80 c + 20 v. We furthermore assume in this comparison that the rate of surplus-value is unchangeable. Let it be, for instance, 100%. The capital of 80 c + 20 v then produces a surplus-value of 20 s, and this is equal to a rate of profit of 20% on the total capital. The magnitude of the actual value of the product of this capital depends on the magnitude of the fixed part of the constant capital, and on the amount of it passing by wear and tear over to the product. But as this circumstance is immaterial so far as the rate of profit and the present analysis are concerned, we assume for the sake of simplicity that the constant capital is transferred everywhere uniformly and entirely to the annual product of the capitals named. It is further assumed that these capitals realise equal quantities of surplus-value in the different spheres of production, proportional to the magnitude of their variable parts. In other words, we disregard for the present the difference which may be produced in this respect by the different lengths of the periods of turn-over. This point will be discussed later.

II.IX.2

Let us compare five different spheres of production, and let the capital in each one have a different organic composition, as follows:

Table. Click to enlarge in new window.

II.IX.3

Here we have considerably different rates of profit in different spheres of production with the same degree of exploitation, corresponding to the different organic composition of these capitals.

II.IX.4

The grand total of the capitals invested in these five spheres of production is 500; the grand total of the surplus-value produced by them is 110; the total value of all commodities produced by them is 610. If we consider the amount of 500 as one single capital, and capitals I to V as its component parts (about analogous to the different departments of a cotton mill which has different proportions of constant and variable capital in its carding, preparatory spinning, spinning, and weaving rooms, on the basis of which the average proportion for the whole factory is calculated), then we should put down the average composition of this capital of 500 as 390 c + 110 v, or, in percentages, as 78 c + 22 v. In other words, if we regard

each one of the capitals of 100 as one-fifth of the total capital, its average composition would be 78 c + 22 v; and every 100 would make an average surplus-value of 22. The average rate of profit would, therefore, be 22%, and, finally, the price of every fifth of the total product produced by the capital of 500 would be 122. The product of each 100 of the advanced total capital would have to be sold, then, at 122.
II.IX.5

But in order not to arrive at entirely wrong conclusions, it is necessary to assume that not all cost-prices are equal to 100.
II.IX.6

With a composition of 80 c + 20 v, and a rate of surplus-value of 100, the total value of the commodities produced by the first capital of 100 would be 80 c + 20 v + 20 s, or 120, provided that the whole constant capital is transferred to the product of the year. Now, this may happen under certain circumstances in some spheres of production. But it will hardly be the case where the proportion of c to v is that of four to one. We must, therefore, remember in comparing the values produced by each 100 of the different capitals, that they will differ according to the different composition of c as to fixed and circulating parts, and that the fixed portions of different capitals will wear out more or less rapidly, thus transferring unequal quantities of value to the product in equal periods of time. But this is immaterial

so far as the rate of profit is concerned. Whether the 80 c transfer the value of 80, or 50, or 5, to the annual product, whether the annual product is consequently 80 c + 20 v + 20 s = 120, or 50 c + 20 v + 20 s = 90, or 5 c + 20 v + 20 s = 45, in all of these cases the excess of the value of the product over its cost-price is 20, and in every case these 20 are calculated on a capital of 100 in ascertaining the rate of profit. The rate of profit of capital I is, therefore, in every case 20%. In order to make this still plainer, we transfer in the following table different portions of the constant capital of the same five capitals to the value of their product.

Table. Click to enlarge in new window.

II.IX.7

Now, if we consider capitals I to V once more as one single total capital, it will be seen that also in this case the composition of the sums of these five capitals amounts to 500, being 390c + 110 v, so that the average composition is once more 78 c + 22 v. The average surplus-value also remains 22%. If we allot this surplus-value uniformly to capitals I to V, we arrive at the following prices of the commodities:

Table. Click to enlarge in new window.

Summing up, we find that the commodities are sold at 2 + 7 + 17 = 26 above, and 8 + 18 + 26 below their value, so that the deviations of prices from values mutually balance one another by the uniform distribution of the surplus-value, or by the addition of the average profit of 22 per 100 of advanced capital to the respective cost-prices of the commodities of I to V. One portion of the commodities is sold in the same proportion above in which the other is sold below their values. And it is only their sale at such prices which makes it possible that the rate of profit for all five capitals is uniformly 22%, without regard to the organic composition of these capitals. The prices which arise by drawing the average of the various rates of profit in the different spheres of production and adding this average to the cost-prices of the different spheres of production, are the prices of production. They are conditioned on the existence of an average rate of profit, and this, again, rests on the premise that the rates of profit in every sphere of production, considered by itself, have previously been reduced to so many average rates of profit. These special rates of profit are equal to s/C in every sphere of production, and they must be deduced out of the values of the commodities, as shown in volume I. Without such a deduction an average rate of profit (and consequently a price of production of commodities), remains a vague and senseless conception. The price of production of a commodity, then, is equal to its cost-price plus a percentage of profit apportioned

according to the average rate of profit, or in other words, equal to its cost-price plus the average profit.
II.IX.9

Since the capitals invested in the various lines of production are of a different organic composition, and since the different percentages of the variable portions of these total capitals set in motion very different quantities of labor, it follows that these capitals appropriate very different quantities of surplus-labor, or produce very different quantities of surplus-value. Consequently the rates of profit prevailing in the various lines of production are originally very different. These different rates of profit are equalised by means of competition into a general rate of profit, which is the average of all these special rates of profit. The profit allotted according to this average rate of profit to any capital, whatever may be its organic composition, is called the average profit. That price of any commodity which is equal to its cost-price plus that share of average profit on the total capital invested (not merely consumed) in its production which is allotted to it in proportion to its conditions of turn-over, is called its price of production. Take, for instance, a capital of 500, of which 100 are fixed capital, and let 10% of this wear out during one turn-over of the circulating capital of 400. Let the average profit for the time of this turn-over be 10%. In that case the cost-price of the product created during this turn-over will be 10 c (wear) + 400 (c + v),

circulating capital, or a total of 410, and its price of production will be 410 (cost-price) plus 10% of average profit on 500, or a total of 460. II.IX.10

While the capitalists in the various spheres of production recover the value of the capital consumed in the production of their commodities through the sale of these, they do not secure the surplus-value, and consequently the profit, created in their own sphere by the production of these commodities, but only as much surplus-value, and profit, as falls to the share of every aliquot part of the total social capital out of the total social surplus-value, or social profit produced by the total capital of society in all spheres of production. Every 100 of any invested capital, whatever may be its organic composition, draws as much profit during one year, or any other period of time, as falls to the share of every 100 of the total social capital during the same period. The various capitalists, so far as profits are concerned, are so many stockholders in a stock company in which the shares of profit are uniformly divided for every 100 shares of capital, so that profits differ in the case of the individual capitalists only according to the amount of capital invested by each one of them in the social enterprise, according to his investment in social production as a whole, according to his shares. That portion of the price of commodities which buys back the elements of capital consumed in the production of these commodities, in other words, their cost-price, depends on the investment of capital required in each particular sphere of production.

But the other element of the price of commodities, the percentage of profit added to this cost-price, does not depend on the mass of profit produced by a certain capital during a definite time in its own sphere of production, but on the mass of profit allotted for any period to each individual capital in its capacity as an aliquot part of the total social capital invested in social production.*22
II.IX.11

A capitalist selling his commodities at their price of production recovers money in proportion to the value of the capital consumed in their production and secures profits in proportion to the aliquot part which his capital represents in the total social capital. His cost-prices are specific. But the profit added to his cost-prices is independent of his particular sphere of production, for it is a simple average per 100 of invested capital.
II.IX.12

Let us assume that the five different investments of capital named I to V in the foregoing illustrations belong to one man. The quantity of variable and constant capital consumed for each 100 of the invested capitals in the production of commodities would be known, and these portions of the value of the commodities of I to V would make up a part of their price, since at least this price is required to recover the consumed portions of the invested capital. These cost-prices would be different for each class of the commodities I to V, and the owner

would therefore mark them differently. But the different masses of surplus-value, or profit, produced by capitals I to V might easily be regarded by the capitalist as profits of his aggregate capital, so that each 100 would get its proportional quota. The cost-prices of the commodities produced in the various departments I to V would be different; but that portion of their selling price which comes from the addition of the profit for each 100 of capital would be the same for all these commodities. The aggregate price of the commodities of I to V would be equal to their aggregate value, that is to say, it would be equal to the sum of the cost-prices of I to V plus the sum of the surplus-values, or profits, produced in I to V. It would actually be the money-expression of the total quantity of past and present labor incorporated in the commodities of I to V. And in the same way the sum of all the prices of production of all commodities in society, comprising the totality of all lines of production, is equal to the sum of all their values.
II.IX.13

This statement seems to be contradicted by the fact that under capitalist production the elements of productive capital are, as a rule, bought on the market, so that their prices include profits which have already been realised. Accordingly, the price of production of one line of production passes, with the profit contained in it, over into the cost-price of another line of production. But if we place the sum of the cost-prices of the whole country on one side, and the sum of its

surplus-values, or profits, on the other, it is evident that the calculation must come out right. For instance, take a certain commodity A. Its cost-price may contain the profits of B, C, D, etc., or the cost-prices of B, C, D, etc., may contain the profits of A. Now, if we make our calculation, the profits of A will not be included in its cost-price, nor will the profits of B, C, D, etc., be figured in with their own cost-prices. No one figures his own profit in his own cost-price. If there are n spheres of production, and every one of them makes a profit of p, then the aggregate cost-price of all of them is equal to k-np. Taking the calculation as a whole we see that the profits of one sphere which pass into the cost-prices of another have been placed on one side of the account showing the total price of the ultimate product, and so cannot be placed a second time on the profit side. If any do appear on this side, it can be only because this particular commodity was itself the ultimate product, so that its price of production did not pass into the cost-price of some other commodity. II.IX.14

If an amount equal to p, expressing the profits of the producers of means of production, passes into the cost-price of a commodity, and if a profit equal to p' is added to this cost-price, then the aggregate profit P is equal to p + p'. The aggregate cost-price of a commodity, after deducting all amounts for profit, is in that case its own cost-price minus P. If this cost-price is called k, then it is evident that k + P = k + p + p'. We have seen in volume I, chapter IX, 2, that the

product of every capital may be treated as though a part of it reproduced only capital, while the other part represented only surplus-value. Applying this mode of calculation to the aggregate product of society, it is necessary to make some rectifications. For, looking upon society as a whole, it would be a mistake to figure, say, the profit contained in the price of flax twice. It should not be counted as a portion of the price of linen and at the same time as the profit of the producers of flax.
II.IX.15

To the extent that the surplus-value of A passes into the constant capital of B, there is no difference between surplus-value and profit. It is quite immaterial for the value of the commodities, whether the labor contained in them is paid or unpaid. We see merely that B pays for the surplus-value of A. But the surplus-value of A cannot be counted twice in the total calculation.
II.IX.16

The essential difference is this: Aside from the fact that the price of a certain product, for instance the product of capital B, differs from its value, because the surplus-value realized in B may be greater or smaller than the profit of others contained in the product of B, the same fact applies also to those commodities which form the constant part of its capital, and which indirectly, as necessities of life for the laborers, form its variable part. So far as the constant part is

concerned, it is itself equal to the cost-price plus surplus-value, which now means cost-price plus profit, and this profit may again be greater or smaller than the surplus-value in whose place it stands. And so far as the variable capital is concerned, it is true that the average daily wage is equal to the values produced by the laborers in the time which they must work in order to produce their necessities of life. But this time is in its turn modified by the deviation of the prices of production of the necessities of life from their values. However, this always amounts in the end to saying that one commodity receives too little of the surplus-value while another receives too much, so that the deviations from the value shown by the prices of production mutually compensate one another. In short, under capitalist production, the general law of value enforces itself merely as the prevailing tendency, in a very complicated and approximate manner, as a never ascertainable average of ceaseless fluctuations.
II.IX.17

Since the average rate of profit is formed by the average of the various rates of profit for each 100 of the invested capital during a definite period of time, say one year, it follows that the difference brought about by the various periods of turn-overs of different capitals is also effaced by this means. But these differences play a leading role in the different rates of profit of the various spheres of production whose average forms the average rate of profit.
II.IX.18

In the preceding illustration we assumed each capital in every sphere of production helping to make up the average rate of profit to be equal to 100, and we did so in order to show the differences in the rates of profit by percentages and incidentally the difference in the values of commodities produced by equal amounts of capital. But it is understood that the actual masses of surplus-value produced in each sphere of production depend on the magnitude of the invested capitals, since the composition of each capital is determined by each sphere of production. But the particular rate of profit of any individual sphere of production is not affected by the circumstance that a capital of 100, or m times 100, or xm times 100 may be invested. The rate of profit remains 10%, whether the total profit is as 10 to 100, or 1,000 to 10,000.
II.IX.19

However, since the rates of profit differ in the various spheres of production, seeing that considerably different masses of surplus-value, or profit, are produced in them according to the proportion of the variable to the total capital, it is evident that the average profit per 100 of the social capital, and consequently the average, or general, rate of profit, will differ considerably according to the respective magnitudes of the capitals invested in the various spheres. Take, for instance, four capitals A, B, C, D. Let the rate of surplus-value be 100% for all of them. Let the variable capital for each 100 of total

capital be 25 in A, 40 in B, 15 in C, and 10 in D. In that case every 100 of the total capital would make a surplus-value, or profit, of 25 in A, 40 in B, 15 in C, and 10 in D. This would make a total of 90, and if these four capitals are of the same magnitude, the average rate of profit would be 90/4, or 22.5%.
II.IX.20

Now take it that the amounts of the total capitals are as follows: A equals 200, B, 300, C, 1,000, D, 4,000. The profits produced in that case would be 50, 120, 150, and 400. Lumping these four capitals together into one total capital of 5,500, its profit would be 720, and its average rate of profit 13 1/11%.
II.IX.21

The masses of the total value produced differ according to the magnitudes of the total capitals invested in A, B, C, D, respectively. The question of the formation of an average rate of profit is therefore not merely a matter of drawing simply the average of the different rates of profit in the various spheres of production, but quite as much one of the relative weight which these different rates of profit carry in the formation of the average. This depends on the relative magnitude of the capital invested in each particular sphere, or on the aliquot part which the capital invested in each particular sphere forms in the aggregate social capital. There will naturally be a very great difference according to whether a large or a small part of the total capital yields

more or less of a rate of profit. And this, again, depends on the fact whether much or little capital is invested in those spheres in which the variable capital is relatively small or large compared to the total capital. It is the same with the average interest which a usurer draws who lends different amounts of capital at different rates of interest; for instance at 4, 5, 6, 7%, etc. The average rate of his interest will depend entirely on the relative magnitudes of the various capitals put out by him at different rates of interest.

II.IX.22

We see, then, that the average rate of profit is determined by two factors:

1) By the organic composition of the capitals in the different spheres of production, and consequently by the different rates of profit of the individual spheres.

2) By the allotment of the social total capital to these different spheres, in other words, by the relative magnitude of the capitals invested in each particular sphere and the special rate of profit attendant to it; or, to express it still differently, by the relative share of the total social capital absorbed by each sphere of production.

II.IX.23

In volumes I and II we were dealing only with the values of the commodities. Now we have dissected this value on the one hand into a cost-price, and on the other we have developed out of it another form, that of the price of production of commodities.
II.IX.24

Take it that the composition of the average social capital is 80 c + 20 v, and that the annual rate of surplus-value, s', is 100%. In that case the average annual profit for a capital of 100 would be 20, and the average annual rate of profit 20%. Whatever may be the cost-price k of the commodities annually produced by a capital of 100, their price of production will be k + 20. In those spheres of production, in which the composition of capital would be (80-x) c + (20 + x) V, the actually produced surplus-value, or the annual profit produced in this sphere, would be 20 + x, that is to say greater than 20, and the value of the produced commodities k + 20 + x, that is to say greater than k + 20, greater than their price of production. On the other hand, in those spheres, in which the composition of the capital would be (80 + x) c + (20-x) v, the annually produced surplus-value, or profit, would be 20-x, or smaller than 20, and consequently the value of the commodities k + 20-x, smaller than the price of production, which is k + 20. Aside from eventual differences in the periods of turn-over, the price of production of the commodities would be equal with their value only in those spheres, in which the composition would happen to be 80 c + 20 v.

II.IX.25

The specific development of the social productivity of labor varies more or less in each particular sphere of production in proportion as the quantity of means of production set in motion in a given working day by a given number of laborers is large, and consequently the quantity of labor required for a definite quantity of means of production small. Hence we call capitals of higher composition such capitals as contain a larger percentage of constant and a smaller percentage of variable capital than the average social capital; and vice versa, capitals of lower composition those capitals which give relatively more room to the variable, and relatively less to the constant capital, than the average social capital. Finally, we call capitals of average composition those capitals which have the same composition as the average social capital. If the average social capital is composed of 80 c + 20 v, then a capital of 90 c + 10 v stands above, and a capital of 70 c + 30 v below the social average. Generally speaking, if the composition of the average social capital is mc + nv, m and n being constant magnitudes and m + n being equal to 100, the formula (m + x) c + (n-x) v represents the higher composition, and (m-x) c + (n + x) v the lower composition, of some individual capital or group of capitals. The following tabulation shows the way in which these capitals perform their functions after an average rate of profit has been established, assuming one turn-over per year. In this tabulation,

I shows the average composition, in which the average rate of profit is 20%.

I). 80 c + 20 v + 20 s. Rate of profit 20%. Price of product 120. Value of product 120.

II). 90 c + 10 v + 10 s. Rate of profit 20%. Price of product 120. Value of product 110.

III). 70 c + 30 v + 30 s. Rate of profit 20%. Price of product 120. Value of product 130.

II.IX.26

The value of the commodities produced by capital II would, therefore, be smaller than their price of production, while the price of production of the commodities of III would be smaller than their value. Value and price of production would be equal only in the case of capital I and others like it in the various lines of production. By the way, in applying these terms to any particular cases it must be borne in mind whether a deviation of the proportion between c and v is not due simply to a change in the value of the elements of constant capital, instead of a difference in the technical composition.

II.IX.27

The foregoing statements are indeed a modification of our original assumption concerning the determination of the cost-price of

commodities. We had originally assumed that the cost-price of a commodity is equal to the value of the commodities consumed in its production. Now, the price of production of a certain commodity is its cost-price for the buyer, and this price may pass into other commodities and become an element of their prices. Since the price of production may vary from the value of a commodity, it follows that the cost-price of a commodity containing this price of production may also stand above or below that portion of its total value which is formed by the value of the means of production consumed by it. It is necessary to remember this modified significance of the cost-price, and to bear in mind that there is always the possibility of an error, if we assume that the cost-price of the commodities of any particular sphere is equal to the value of the means of production consumed by it. Our present analysis does not necessitate a closer examination of this point. It remains true, nevertheless, that the cost-price of a commodity is always smaller than its value. For no matter how much the cost-price of a commodity may differ from the value of the means of production consumed by it, a previous mistake in this respect is immaterial for the capitalist. The cost-price of a certain commodity has been previously determined, it is a premise independent of the production of our capitalist, while the result of his production is a commodity containing surplus-value, which is an addition to its cost-price. For all other purposes, the statement that the cost-price is smaller than the value of a commodity is now practically changed into the statement that the cost-price is smaller than the price of

production. So far as the total social capital is concerned, in the case of which the price of production is equal to the value, this statement is still identical with the former, namely that the cost-price is smaller than the value of a commodity. And while this state of things is modified in the individual spheres of production, still the fundamental fact always remains that, from the point of view of the total social capital, the cost-price of the commodities produced by it is smaller than their value, or smaller than their price of production, which in the case of the total mass of social commodities is identical with their value. The cost-price of a commodity refers only to the quantity of paid labor contained in it, while its value refers to all the paid and unpaid labor contained in it. The price of production refers to the sum of the paid labor plus a certain quantity of paid labor determined by conditions which are independent of the individual sphere in which this particular commodity was produced.
II.IX.28

The formula that the price of production of a commodity is equal to k + p, equal to its cost-price plus profit, is now more precisely modified by the explanation that p equals kp' (p' meaning the average rate of profit), so that the price of production is equal to k + kp'. If k is 300 and p', 15%, then the price of production, being k + kp', is 300 + 300 × 15/100, or 345.
II.IX.29

The price of production of the commodities in any particular sphere may alter its magnitude in the following cases:

1) If the average rate of profit is changed through conditions which are independent of this particular sphere, assuming the value of commodities to remain the same (so that the same quantities of dead and living labor are consumed in their production as before).

2) If there is a change of value, either in this particular sphere in consequence of technical changes, or in consequence of a change in the value of the commodities which form elements of the constant capital of this sphere, while the average rate of profit remains unchanged.

3) If the two aforementioned eventualities combine their effects.

II.IX.30

In spite of the great changes occurring continually, as we shall see, in the rates of profit of the individual spheres of production, there is on the other hand no rapid change in the average rate of profit, unless it is brought about exceptionally by extraordinary economic events. A change in the average rate of profit is as a rule the belated work of a long series of fluctuations extending over very long periods of time, fluctuations which require much time before they will consolidate and compensate one another so as to bring about a change in the average rate of profit. In all short periods of time (quite aside from

fluctuations of market prices), a change in the prices of production is, therefore, always traceable to actual changes in the value of commodities, that is to say, to changes in the total amount of labor-time required for their production. As a matter of course, mere changes in the money-expression of the same values are not at all considered here.*23
II.IX.31

On the other hand it is evident that, from the point of view of the total social capital, the value of the commodities produced by it (or, expressed in money, their price) is equal to the value of the constant capital plus the value of the variable capital plus the surplus-value. Assuming the degree of labor-exploitation to be constant, the rate of profit cannot change so long as the mass of surplus-value remains the same, unless either the value of the constant capital changes, or the value of the variable capital, or the value of both, so that C is changed and thereby s/C, the general rate of profit. In every event, then, a change in the average rate of profit is conditioned on a change in the value of the commodities which form the elements of the value of the constant, or variable capital, or of both.
II.IX.32

Or, the average rate of profit may change, if the degree of labor-exploitation changes, while the value of the commodities remains the same.

II.IX.33

Or, if the degree of labor-exploitation remains the same, the average rate of profit may change through a relative change in the labor employed in comparison to the constant capital, as a result of technical changes in the labor-process. But such technical changes must always find expression in a change of value of the commodities, and be accompanied by it, since their production will then require either more or less labor than before.

II.IX.34

We saw in part I that the mass of profit and surplus-value were identical. But the rate of profit was from the first distinguished from the rate of surplus-value, and this appeared to be due, at first sight, to a mere difference of calculation. But at the same time this way of looking at the question served from the outset to obscure and mystify the actual origin of surplus-value, since the rate of profit could rise or fall, while the rate of surplus-value remained the same, and vice versa, and since the capitalist had a practical interest only in the rate of profit. But there was an actual difference of magnitude only between the rates of surplus-value and of profit, not between the masses of surplus-value and of profit. Since the surplus-value was calculated on the total capital in figuring up the rate of profit, and this total capital was regarded as the standard of measurement, the surplus-value itself seemed to have its origin in the total capital and

to proceed from all its parts uniformly, so that the organic difference between constant and variable capital was obliterated. In its disguise of profit, the surplus-value had actually concealed its origin, lost its character, and become unrecognizable. However, hitherto the distinction between profit and surplus-value referred only to a change of quality, or form, and there was no real difference of magnitude between the masses of surplus-value and profit, but only between the rates of surplus-value and profit, in this first stage of their metamorphosis.
II.IX.35

But this is changed, as soon as a general rate of profit, and, by means of it, an average mass of profit corresponding to the magnitude of the capitals invested in the various spheres of production, have been established.
II.IX.36

After that it is but accidentally that the surplus-value actually produced in any particular sphere of production, and thus the profit, is identical with the profit contained in the selling price of the commodities. It then becomes the rule, that not only the rates of surplus-value and profit are the expression of different magnitudes, but also the masses of surplus-value and of profit. Assuming a certain degree of exploitation to exist, the mass of the surplus-value produced in any particular sphere of production is now more important for the average

profit of the total social capital, and thus for the capitalist class in general, than for the individual capitalist in any individual line of production. It has any importance for the individual capitalist only to the extent*24 that the quantity of surplus-value produced in his line plays a determining role in regulating the average profit. But this is a process which takes place behind his back, which he does not see, nor understand, and which indeed does not interest him at all. The actual difference of magnitude between profit and surplus-value‘not merely between the rate of profit and of surplus-value‘in the various spheres of production now conceals completely the true nature and origin of profit, not only for the capitalist, who has a special interest in deceiving himself on this score, but also for the laborer. By the transformation of values into prices of production, the basis of the determination of value is itself removed from direct observation. Finally, seeing that the mere transformation of surplus-value into profit separates that portion of the value of commodities which forms the profit from that portion which forms the cost-price of commodities, it is natural that the capitalist should lose the meaning of the term value at this juncture. For he is not confronted with the total labor put into the production of the commodities, but only with that portion of the total labor which he has paid in the shape of means of production, whether they be alive or dead, so that his profit appears to him as something outside of the immanent value of the commodities. And now this conception is fully endorsed, fortified, and ossified by the fact that, from the point of view of his particular

sphere of production, the profit is not determined by the limits drawn for the formation of value within his own circle, but by outside influences.
II.IX.37

The fact that the actual state of things is here revealed for the first time; that political economy up to the present time, as we shall see in the following and in volume IV, made either forced abstractions of the distinctions between surplus-value and profit, and their rates, in order to be able to retain the determination of value as a basis, or gave up the determination of value and with it all safeguards of scientific procedure, in order to cling to the obvious phenomena of these differences‘this confusion of the theoretical economists demonstrates most strikingly the utter incapacity of the capitalist, when blinded by competition, to penetrate through the outward disguise into the internal essence and the inner form of the capitalist process of production.
II.IX.38

In fact, all the laws concerning the rise and fall of the rate of profit, as analysed in part I, have the following double meaning:
II.IX.39

1) On the one hand, they are the laws of the average rate of profit. In view of the many different causes which bring about a rise or a

fall in the rate of profit, one would think that the average rate of profit would change every day. But a certain movement in one sphere will counterbalance that of another, their effects cross and paralyze one another. We shall examine later on toward which side these fluctuations gravitate ultimately. But they are slow. The suddenness, multiplicity, and different duration of the fluctuations in the individual spheres of production tend to compensate them mutually in the order of their succession in time, so that a fall in prices follows after a rise, and vice versa, limiting these fluctuations to local, individual, spheres. As a result, the various local fluctuations ultimately neutralise one another. Changes take place within each individual sphere of production, deviations from the average rate of profit, which on the one hand, balance one another after a certain time and thus do not react upon the average rate of profit, and which, on the other hand, do not react upon it, because they are balanced by other simultaneous fluctuations in other local spheres. Since the average rate of profit is determined, not only by the average profits of each sphere, but also by the allotment of the total social capital to the different individual spheres, and since this allotment is continually changing, this is another continuous cause of changes in the average rate of profit. But it is a cause of changes which largely paralyzes itself, owing to its interrupted and many sided nature.
II.IX.40

2) Within each sphere, there is a certain playroom for a space of time in which the local rate of profit may fluctuate, before this fluctuation of rise and fall consolidates sufficiently to gain time for exerting an influence on the average rate of profit and assuming more than a local importance. Within these limits of space and time, the laws of the rate of profit, as developed in Part I of this volume, likewise remain applicable.
II.IX.41

The theoretical conception, referring to the first transformation of surplus-value into profit, according to which every part of the capital yields uniformly the same profit,*25 expresses a practical fact. Whatever may be the composition of the industrial capital, whether it sets in motion one quarter of dead labor and three quarters of living labor, or three quarters of dead labor and one quarter of living labor, whether it absorbs three times as much surplus-labor, or produces three times as much surplus-value, in one case than in another, it yields the same profit in either case, always assuming the degree of labor-exploitation to be the same, and leaving aside individual differences, which disappear for the reason that we are dealing in either case with the average composition of the entire sphere of production. The individual capitalist, whose outlook is limited, or even all the capitalists in each individual sphere of production, justly believe that their profits are not derived solely from the labor employed in their own individual sphere. This is quite true so far as their average

profit is concerned. To what extent this profit is due to the universal exploitation of labor by means of the total social capital, that is to say, by all his capitalist colleagues, this connection of things is a complete mystery for the individual capitalist. And it is all the more so, since no bourgeois economist has so far cleared it up for him. A saving of labor‘not only of labor necessary for the production of a certain product, but also of the number of laborers employed‘and the employment of more dead labor (constant capital), appear as very correct operations from an economic point of view, and do not seem to exert the least influence on the average rate of profit and the average profit. How, then, could living labor be the exclusive source of profit, seeing that a reduction in the quantity of labor required for production does not only seem to exert no injurious influence on profit, but even seems, under certain circumstances, to be the first cause for an increase of profits, at least for the individual capitalist? II.IX.42

If there is a rise or fall, in any particular sphere of production, in that portion of the cost-price which represents the value of the constant capital, it is a portion coming out of the circulation and passes from the outset into the process of production of the commodities in its enlarged or reduced state. If, on the other hand, the same number of laborers produces more or less in the same time, so that the quantity of labor required for the production of a definite quantity of commodities varies while the number of laborers remains the same, it

may be that that portion of the cost-price, which represents the value of the variable capital, may remain the same and contribute the same amount to the cost-price of the total product. But every individual commodity, whose sum makes up the total product, shares in more or less labor (paid and unpaid), and shares therefore in the greater or smaller outlay for this labor, a larger or smaller portion of the wages. The total wages paid by the capitalist remain the same, but the calculation for each individual commodity is different. To that extent there would be a change in the cost-price of the commodities. But no matter whether the cost-price of the individual commodities rises or falls, either as a result of such changes of value in this same commodity, or of changes of value in its elements (or, perhaps, the cost-price of the total amount of commodities produced by a capital of a given magnitude), if the average profit is, say, 10%, it remains 10%. Still, 10%, from the point of view of the individual commodity, may represent very different amounts, according to the change of magnitude in the cost-price of the individual commodities called forth by such changes of value as we have assumed.*26
II.IX.43

So far as the variable capital is concerned‘and this is the more important, because it is the source of surplus-value, and because anything which conceals its relation to the accumulation of wealth by the capitalist serves to mystify the entire system‘the matter assumes a coarser form. It appears to the capitalist in this light: A variable

capital of 100 p.st. employs, perhaps, 100 laborers per week. If these 100 laborers produce 200 pieces of commodities or 200 C, per week in a given working time, then 1 C‘leaving aside the question of that portion of its cost-price which is added by the constant capital, costs 10 shillings, for 100 p.st. pay for 200 c, and therefore 1 C costs 100/200 p.st. Now take it that a change takes place in the productive power of labor. Perhaps it is doubled, so that the same number of laborers now produces twice 200 C in the same time in which they used to produce once 200 C. In that case 1 C costs 5 shillings (always speaking only of that portion of the cost-price which consists of wages), for since 100 p.st. now pay for 400 C, 1 C costs 100/400 p.st. On the other hand, if the productive power were to decrease by one-half, then the same labor would produce only (200/2) C. And since 100 p.st. pay for (200/2) C, 1 C would cost 200/200 p.st., or 1 p.st. The changes in the labor-time required for the production of the commodities, and thus the changes in their values, thus appear with reference to the cost-price and the price of production as different allotments of the same wages to more or fewer commodities, according to the greater or smaller quantity of commodities produced in the same working time for the same wages. The capitalist, and consequently his political economist, see that the aliquot part of the paid labor falling to the share of each individual commodity changes with the productivity of labor, and that the value of these commodities also changes accordingly. But they do not see that the same is true of the unpaid labor contained in every individual commodity, and they

see it so much less since the average profit is but accidentally determined by the unpaid labor absorbed in the sphere of the individual capitalist. Only in this vague and meaningless form are we still reminded of the fact that the value of the commodities is determined by the labor contained in them.

Notes for this chapter

22.
Cherbuliez.
23.
Corbett, page 174.
24.
Of course, we leave aside the question of the probability of securing an extra profit by cutting wages, monopoly prices, etc., at least for the moment.
25.
Malthus.
26.
Corbett

Part II,

Volume III Chapter X COMPENSATION OF THE AVERAGE RATE OF PROFIT BY COMPETITION. MARKET PRICES AND MARKET VALUES. SURPLUS-PROFIT.

II.X.1

ONE portion of the spheres of production has an average composition of their capitals, that is to say, their capitals have exactly or approximately the composition of the average social capital.

II.X.2

In these spheres of production, the price of production of the produced commodities coincides exactly or approximately with their values as expressed in money. If there is no other way of reaching a mathematical limit, this would be the one. Competition distributes the social capital in such a way between the various spheres of production that the prices of production of each sphere are formed after the model of the prices of production in these spheres of average composition, which is k + kp', cost-price plus the average rate of profit multiplied by the cost-price. Now, this average rate of profit is nothing else but the percentage of profit in that sphere of average composition, in which the profit is identical with the surplus-value. Hence the rate of profit is the same in all spheres of production, for it is apportioned according to that one of the average spheres of production in which the average composition of capitals prevails. Consequently the sum of the profits of all spheres of production must

be equal to the sum of surplus-values, and the sum of the prices of production of the total social product equal to the sum of its values. But it is evident that the balance between the spheres of production of different composition must tend to equalise them with the spheres of average composition, no matter whether this average composition is exact or only approximate. Again, there are tendencies toward equalisation between the more or less similar spheres, and these tendencies seek to bring about the ideal average, which does not really exist, so that there is a trend toward crystallisation around the ideal. In this way the tendency necessarily prevails to make of the prices of production merely changed forms of value, or to make of profits but mere portions of surplus-value, which are assigned, however, not in proportion to the surplus-value produced in each special sphere of production, but in proportion to the mass of capital employed in each sphere of production, so that equal masses of capital, whatever may be their composition, receive equal aliquot shares of the total surplus-value produced by the total social capital. II.X.3

In the case of capitals of average, or approximately average, composition, the price of production coincides exactly, or approximately with the value, and the profit with the surplus-value produced by them. All the other capitals, of whatever composition, tend toward this average under the pressure of competition. But since the capitals of average composition are of the same, or approximately the same,

structure as the average social capital, all capitals have the tendency, regardless of the surplus-value produced by them, to realise in the prices of their commodities the average profit, instead of their own surplus-value, in other words, to realise the prices of production. II.X.4

On the other hand it may be said that whenever an average profit, and a general rate of profit, are brought about, no matter by what means, such as average profit cannot be anything else but the profit on the average social capital, the sum of these average profits being equal to the sum of surplus-values produced by the average social capitals, and that the prices brought about by adding this average profit to the cost-prices cannot be anything else but the values transformed into prices of production. It would not alter matters, if certain capitals in certain spheres of production would not submit to the process of equalisation for some reason or other. In that case the average profit would be computed on that portion of the social capital which takes part in the process of equalisation. It is evident that the average profit cannot be anything else but the total mass of surplus-values allotted to the various masses of capital in the different spheres of production in proportion to their magnitudes. The average profit is the total amount of realised unpaid labor, and this total mass of unpaid labor, the same as the paid, dead or living, labor, is materialised in the total mass of commodities and money falling to the share of the capitalists.

II.X.5

The real difficulty lies in the question: How is this equalisation of profits into an average rate of profit brought about, seeing that it is evidently a result, not a point of departure?

II.X.6

It is obvious that an estimate of the values of the commodities, for instance in money, can not be made until they have been exchanged. If we assume such an estimate, we must regard it as the outcome of an actual exchange of commodity-value for commodity-value. But how should such an exchange of commodities at their real values have come about?

II.X.7

Let us assume that all commodities in the different lines of production are sold at their real value. What would be the outcome? According to our foregoing analyses, the rates of profit in the various spheres of production would differ considerably. It is quite obvious that we are dealing with two different things, whether on the one hand commodities are sold at their values (that is to say, sold in proportion to the value contained in them, or exchanges with one another at the price of their values), or whether, on the other hand, they are sold at such prices that their sale yields equal amounts of profits on equal masses of the respective capitals advanced for their production.

II.X.8

If capitals employing unequal amounts of living labor are to produce unequal amounts of surplus-value, it must be assumed, at least to a certain degree, that the intensity of exploitation, or the rate of surplus-value, are the same, or that any existing differences in them are balanced by real or imaginary (conventional) elements of compensation. This would presuppose a competition among the laborers and an equilibration by means of their continual emigration from one sphere of production to another. Such a general rate of surplus-value‘as a tendency, like all other economic laws‘has been assumed by us for the sake of theoretical simplification. But in reality it is an actual premise of the capitalist mode of production, although it is more or less obstructed by practical frictions causing more or less considerable differences locally, such as the settlement laws for English farm laborers. But in theory it is the custom to assume that the laws of capitalist production evolve in their pure form. In reality, however, there is always but an approximation. Still, this approximation is so much greater to the extent that the capitalist mode of production is normally developed, and to the extent that its adulteration and amalgamation with remains of former economic conditions is outgrown.
II.X.9

The whole difficulty arises from the fact that commodities are not exchanged simply as commodities, but as products of capitals, which

claim equal shares of the total amount of surplus-value, if they are of equal magnitude, or shares proportional to their different magnitudes. And this claim is to be satisfied by the total price realised by a certain capital on the commodities produced by it within a certain space of time. This total price, again, is but the sum of the prices of the individual commodities produced by this capital.
II.X.10

The essential point will become most visible, when we look upon the matter in this way: Let us assume that the laborers themselves are in possession of their respective means of production and exchange their commodities with one another. In that case these commodities would not be products of capital. The value of the various instruments of labor and raw materials would differ according to the technical nature of the labors performed in the different lines of production. Furthermore, aside from the unequal value of the means of production employed by them, they would require different quantities of means of production for given quantities of labor, according to whether a certain commodity can be finished in one hour, another in one day, and so forth. Let us assume, also, that these laborers work on an average equal lengths of time, allowing for compensations due to different intensities of labor. In that case, two laborers, both working one day, would have in the commodities produced by them, first, an equivalent for their outlay, the cost-prices of the means of production consumed by their labor. These would differ according to the technical nature of

their lines of production. In the second place, both of them would have created equal amounts of new value, namely the working day added by them to the means of production. This would comprise their wages plus the surplus-value, the last representing surplus-labor exceeding their necessary wants, the product of which would belong to them. If we were to use capitalist terms, we should say that both of them receive the same wages plus the same profit, or the same value expressed, say, by the product of a working day of ten hours. But in the first place, the values of their commodities would differ. The commodities of I, for instance, might contain more value for each portion of the consumed means of production than the commodities of II. And, to introduce all possible differences, we may assume right now that the commodities of I absorb more living labor, and consequently require more labor-time for their production, than the commodities of II. Then the value of the commodities of I and II, we repeat, differs considerably. So do the sums of the values of their commodities, which represent the product of the labor performed by laborers I and II in a certain time. The rates of profit would also differ considerably for I and II, assuming that we call rate of profit, in this case, the proportion of the surplus-value to the total value of the invested means of production. The means of subsistence daily consumed by I and II during production, which take the place of wages, will form that part of the invested capital which we would call variable capital under different circumstances. But the surplus-values would be the same for I and II, or, to express it more accurately,

since both I and II receive the value of the product of one day's labor, both of them receive equal values after the value of the invested "constant" capital has been deducted, and we may regard one portion of this remaining value as an equivalent for the means of subsistence consumed during production, and the other as surplus-value. If laborer I has higher expenses, they are made good by a greater portion of the value of his commodities replacing this "constant" part, and he has to reconvert a larger portion of the total value of his product into the material elements of this constant part, while laborer II, if he receives less for this purpose, has to reconvert so much less. Under these circumstances a difference in the rates of profit would be of no concern, just as it is immaterial for the wage-laborer to-day what rate of profit may express the amount of surplus-value filched from him, and just as in international commerce the difference in the various national rates of profit is immaterial for the exchange of their commodities.
II.X.11

The exchange of commodities at their values, or approximately at their values, requires, therefore, a much lower stage than their exchange at their prices of production, which requires a relatively high development of capitalist production.
II.X.12

Whatever may be the way in which the prices of the various commodities are first fixed or mutually regulated, the law of value always dominates their movements. If the labor time required for the production of these commodities is reduced, prices fall; if it is increased, prices rise, other circumstances remaining the same.
II.X.13

Aside from the fact that prices and their movements are dominated by the law of value, it is quite appropriate, under these circumstances, to regard the value of commodities not only theoretically, but also historically, as existing prior to the prices of production. This applies to conditions, in which the laborer owns his means of production, and this is the condition of the land-owning farmer and of the craftsman in the old world as well as the new. This agrees also with the view formerly expressed by me that the development of product into commodities arises through the exchange between different communes, not through that between the members of the same commune.*27 It applies not only to this primitive condition, but also to subsequent conditions based on slavery or serfdom, and to the guild organisation of handicrafts, so long as the means of production installed in one line of production cannot be transferred to another line except under difficulties, so that the various lines of production maintain, to a certain degree, the same mutual relations as foreign countries or communistic groups.
II.X.14

In order that the prices at which commodities are exchanged with one another may correspond approximately to their values, no other conditions are required but the following: 1) The exchange of the various commodities must no longer be accidental or occasional, 2) So far as the direct exchange of commodities is concerned, these commodities must be produced on both sides in sufficient quantities to meet mutual requirements, a thing easily learned by experience in trading, and therefore a natural outgrowth of continued trading, 3) So far as selling is concerned, there must be no accidental or artificial monopoly which may enable either of the contracting sides to sell commodities above their value or compel others to sell below value. An accidental monopoly is one which a buyer or seller acquires by an accidental proportion of supply to demand.
II.X.15

The assumption that the commodities of the various spheres of production are sold at their value implies, of course, only that their value is the center of gravity around which prices fluctuate, and around which their rise and fall tends to an equilibrium. We shall also have to note a market value, which must be distinguished from the individual value of the commodities produced by the various producers. Of this more anon. The individual value of some of these commodities will be below the market-value, that is to say, they require less labor-time for their production than is expressed in the market-value, while

that of others will be above the market-value. We shall have to regard the market-value on one side as the average value of the commodities produced in a certain sphere, and on the other side as the individual value of commodities produced under the average conditions of their respective sphere of production and constituting the bulk of the products of that sphere. It is only extraordinary combinations of circumstances under which commodities produced under the least or most favorable conditions regulate the market-value, which forms the center of fluctuation for the market-prices, which are the same, however, for the same kind of commodities. If the ordinary demand is satisfied by the supply of commodities of average value, that is to say, of a value midway between the two extremes, then those commodities, whose individual value stands below the market-value, realise an extra surplus-value, or surplus-profit, while those, whose individual value stands above the market-value cannot realise a portion of the surplus-value contained in them. II.X.16

It does not do any good to say that the sale of the commodities produced under the most unfavorable conditions proves that they are required for keeping up the supply. If the price in the assumed case were higher than the average market-value, the demand would be greater. At a certain price, any kind of commodities may occupy so much room on the market. This room does not remain the same in the case of a change of prices, unless a higher price is accompanied

by a smaller quantity of commodities, and a lower prices by a larger quantity of commodities. But if the demand is so strong that it does not let up when the price is regulated by the value of commodities produced under the most unfavorable conditions, then these commodities determine the market-value. This is not possible unless the demand exceeds the ordinary, or the supply falls below it. Finally, if the mass of the produced commodities exceeds the quantity which is ordinarily disposed of at average market-values, then the commodities produced under the most favorable conditions regulate the market value. These commodities may be sold exactly or approximately at their individual values, and in that case it may happen that the commodities produced under the least favorable conditions do not realise even their cost prices, while those produced under average conditions realise only a portion of the surplus-value contained in them. The statements referring to market-value apply also to the price of production, if it takes the place of market-value. The price of production is regulated in each sphere, and this regulation depends on special circumstances. And this price of production is in its turn the center of gravity around which the daily market-prices fluctuate and tend to balance one another within definite periods. (See Ricardo on the determination of the price of production by those who produce under the least favorable conditions.)
II.X.17

No matter what may be the way in which prices are regulated, the result always is the following:
II.X.18

1) The law of value dominates the movements of prices, since a reduction or increase of the labor-time required for production causes the prices of production to fall or to rise. It is in this sense that Ricardo (who doubtless realised that his prices of production differed from the value of commodities) says that "the inquiry to which he wishes to draw the reader's attention relates to the effect of the variations in the relative value of commodities, and not in their absolute value."
II.X.19

2) The average profit which determines the prices of production must always be approximately equal to that quantity of surplus-value, which falls to the share of a certain individual capital in its capacity as an aliquot part of the total social capital. Take it that the average rate of profit, and therefore the average profit, are expressed by an amount of money of a higher value than the money-value of the actual average surplus-value. So far as the capitalists are concerned in that case, it is immaterial whether they charge one another a profit of 10 or of 15%. The one of these percentages does not cover any more actual commodity-value than the other, since the overcharge in money is mutual. But so far as the laborer is concerned (the assumption

being that he receives the normal wages, so that the raising of the average profit does not imply an actual deduction from his wages, in other words, does not express something entirely different from the normal surplus-value of the capitalist), the rise in the price of commodities due to a raising of the average profit must be accompanied by a corresponding rise of the money-expression for the variable capital. As a matter of fact, such a general nominal raising of the rate of profit and the average profit above the limit provided by the proportion of the actual surplus-value to the total invested capital is not possible without carrying in its wake an increase of wages, and also an increase in the prices of the commodities which constitute the constant capital. The same is true of the opposite case, that of a reduction of the rate of profit in this way. Now, since the total value of the commodities regulates the total surplus-value, and this the level of the average profit and the average rate of profit‘always understanding this as a general law, as a principle regulating the fluctuations‘it follows that the law of value regulates the prices of production.

II.X.20

Competition first brings about, in a certain individual sphere, the establishment of an equal market-value and market-price by averaging the various individual values of the commodities. The competition of the capitals in the different spheres then results in the price of production which equalises the rates of profit between the different

spheres. This last process requires a higher development of capitalist production than the previous process.
II.X.21

In order that commodities of the same sphere of production, the same kind, and approximately the same quality, may be sold at their value, the following two requirements must be fulfilled:
II.X.22

1) The different individual values must have been averaged into one social value, the above-named market-value, and this implies a competition between the producers of the same kind of commodities, and also the existence of a common market, on which they offer their articles for sale. In order that the market-price of identical commodities, which however are produced under different individual circumstances, may correspond to the market-value, may not differ from it by exceeding it or falling below it, it is necessary that the different sellers should exert sufficient pressure upon one another to bring that quantity of commodities on the market which social requirements demand, in other words, that quantity of commodities whose market-value society can pay. If the quantity of products exceeds this demand, then the commodities must be sold below their market-value; vice versa, if the quantity of products is not large enough to meet this demand, or, what amounts to the same, if the pressure of competition among the sellers is not strong enough to

bring this quantity of products to market, then the commodities are sold above their market-value. If the market-value is changed, then there will also be a change in the conditions under which the total quantity of commodities can be sold. If the market-value falls, then the average social demand increases (always referring to the solvent demand) and can absorb a larger quantity of commodities within certain limits. If the market-value rises, then the solvent social demand for commodities is reduced and smaller quantities of them are absorbed. Hence if supply and demand regulate the market-price, or rather the deviations of market-prices from market-values, it is true, on the other hand, that the market-value regulates the proportions of supply and demand, or the center around which supply and demand cause the market-prices to fluctuate.
II.X.23

If we look closer at the matter, we find that the conditions determining the value of some individual commodity become effective, in this instance, as conditions determining the value of the total quantities of a certain kind. For, generally speaking, capitalist production is from the outset a mass-production. And even other, less developed, modes of production carry small quantities of products, the result of the work of many small producers, to market as co-operative products, at least in the main lines of production, concentrating and accumulating them for sale in the hands of relatively few merchants.

Such commodities are regarded as co-operative products of an entire line of production, or of a greater or smaller part of this line.
II.X.24

We remark by the way that the "social demand," in other words, that which regulates the principle of demand, is essentially conditioned on the mutual relations of the different economic classes and their relative economic positions, that is to say, first, on the proportion of the total surplus-value to the wages, and secondly, on the proportion of the various parts into which surplus-value is divided (profit, interest, ground-rent, taxes, etc.). And this shows once more that absolutely nothing can be explained by the relation of supply and demand, unless the basis has first been ascertained, on which this relation rests.
II.X.25

Although both commodity and money represent units of exchange-value and use-value, we have already seen in volume I, chapter I, 3, that in buying and selling both of these functions are polarised at the two extremes, the commodity (seller) representing the use-value, and the money (buyer) the exchange-value. It was one of the first conditions for the sale of a commodity that it should have a use-value and satisfy some social need. The other essential condition was that the quantity of labor contained in a certain commodity should represent socially necessary labor, so that its individual value (and

what amounts to the same under the present assumption, its selling price) should coincide with its social value.*28
II.X.26

Now let us apply this to the mass of commodities on the market, which represent the product of a whole sphere of production. The matter will be most easily explained by regarding this whole mass of commodities, coming from one line of production, as one single commodity, and the sum of the prices of the many identical commodities as one price. In that case the statements made in regard to one individual commodity apply literally to the mass of commodities sent to the market by one entire line of production. The postulate that the individual value of a commodity should correspond to its social value has then the significance that the total quantity of commodities contains the quantity of social labor necessary for its production, and that the value of this mass is equal to its market-value.
II.X.27

Now let us assume that the bulk of these commodities has been produced under approximately the same normal conditions of social labor, so that this social value is at the same time identical with the individual value of the individual commodities constituting this mass. In that case, a relatively small portion of these commodities may have been produced below, and another above, these conditions, so that

the individual value of the one portion is greater, and that of the other smaller, than the average value of the bulk of the commodities, but in such proportions that these extremes balance one another. The average value of the commodities in these extremes is then equal to the average value of the great bulk of average commodities. Under such circumstances, the market-value is determined by the value of the commodities produced under average conditions.*29 The value of the entire mass of commodities is equal to the actual sum of the values of all individual commodities combined, no matter whether they were produced under average conditions, or under conditions above or below the average. In this case, the market-value, or the social value, of the mass of commodities‘the necessary labor time contained in them‘is determined by the value of the average bulk.
II.X.28

Let us assume, on the other hand, that the total mass of commodities brought to market remains the same, while the value of the commodities produced under the least favorable conditions is not balanced by the value of the commodities produced under the most favorable conditions, so that the mass of commodities produced under the least favorable conditions constitutes a relatively large quantity, compared to the average mass as well as to the other extreme. In that case the mass produced under the least favorable conditions determines the market-value, or social value.
II.X.29

Take it, finally, that the mass of commodities produced under the most favorable conditions is considerable in excess of the mass produced under the least favorable conditions, and is large even compared with the average mass. Then the mass produced under the most favorable conditions determines the market-value. We leave aside the question of a transfer of the market, whenever the mass of commodities produced under the most favorable conditions regulates the market-price. We are not dealing here with the market-price in so far as it differs from the market-value, but with the various modes of determining the market-value itself.*30
II.X.30

In fact, assuming the strictest case (which, or course, is realised only approximately and with a thousand modifications) of our first illustration, the market-value regulated by the average values of the total mass of commodities is equal to the sum of their individual values, although this market-value is forced as an average value upon the commodities produced at the extremes. Those who produce under the worst conditions must then sell their commodities below their individual values; those producing under the best conditions sell them above their individual values.
II.X.31

In the second case, the two lots of commodities produced as the two extremes do not balance one another. The lot produced under the worst conditions decides the question. Strictly speaking, the average price, or the market-value, of every individual commodity, or of every aliquot part of the total mass, would now be determined by the total value of the mass as ascertained by the addition of the values of the commodities produced under different conditions, and by the aliquot part of this total value falling to the share of the individual commodity. The market-value thus ascertained would be above the individual value, not only of the commodities belonging to the most favorable extreme, but also of those belonging to the average lot. But still it would be below the individual value of the commodities produced at the most unfavorable extreme. The extent to which this market-value would approach the individual value of this extreme, or coincide with it, would depend entirely on the volume occupied in that sphere of commodities by the lot of commodities produced at the unfavorable extreme. If the demand exceeds the supply but slightly, then the individual value of the unfavorably produced commodities regulates the market-price.
II.X.32

Finally, if the lot of commodities produced at the most favorable extreme occupies the greatest space, as it does in the third case, compared not only to the other extreme, but also to the average lot, then the market-value falls below the average value. The average

value, computed by the addition of the sum of values of the two extremes and of the middle, stands here below that of the middle, and approaches it or recedes from it, according to the relative space occupied by the favorable extreme. If the demand is weak compared to the supply, then the favorably situated part, whatever may be its size, makes room for itself forcibly by contracting its price down to its individual value. The market-value cannot coincide with this individual value of the commodities produced under the most favorable conditions, except when the supply far exceeds the demand.
II.X.33

This mode of determining market-values, which we have here outlined abstractly, is promoted on the real market by competition among the buyers, provided that the demand is just large enough to absorb the quantity of commodities at the values fixed in this manner. And this brings us to the second point.
II.X.34

2) To say that a commodity has a use-value is merely to say that it satisfies some social want. So long as we were dealing simply with individual commodities, we could assume that the demand for any one commodity‘its price implying its quantity‘existed without inquiring into the extent to which this demand required satisfaction. But this question of the extent of a certain demand becomes essential, whenever the product of some entire line of production is placed on

one side, and the social demand for it on the other. In that case it becomes necessary to consider the amount, the quantity, of this social demand.

II.X.35

In the foregoing statements referring to market-value, the assumption was that the mass of the produced commodities remains the same given quantity, and that a change takes place only in the proportions of the elements constituting this mass and produced under different conditions, so that the market-value of the same mass of commodities is differently regulated. Let us suppose that this mass is of a quantity equal to the ordinary supply, leaving aside the possibility that a portion of the produced commodities may be temporarily withdrawn from the market. Now, if the demand for this mass also remains the same, then this commodity will be sold at its market-value; no matter which one of the three aforementioned cases may regulate this market-value. This mass of commodities does not only satisfy a demand, but satisfies it to its full social extent. On the other hand, if the quantity is smaller than the demand for it, then the market-prices differ from the market-values. And the first differentiation is that the market-value is always regulated by the commodity produced under the least favorable circumstances, if the supply is too small, and by the commodity produced under the most favorable conditions, if the supply is too large. In other words, one of the extremes determines the market-value, in spite of the fact that the proportion of the

masses produced under different conditions ought to bring about a different result. If the difference between demand and supply of the product is very considerable, then the market-price will likewise differ considerably from the market-value in either direction. Now, the difference between the quantity of the produced commodities and the quantity of commodities which fixes their sale at their market-value may be due to two reasons. Either the quantity itself varies, by decreasing or increasing, so that there would be a reproduction on a different scale than the one which regulated a certain market-value. If so, then the supply changes while the demand remains unchanged, and we have a relative overproduction or underproduction. Or, the reproduction, and the supply, remain the same, while the demand is reduced or increased, which may take place for several reasons. If so, then the absolute magnitude of the supply is unchanged, while its relative magnitude, compared to the demand, has changed. The effect is the same as in the first case, only it acts in the opposite direction. Finally, if changes take place on both sides, either in opposite directions, or, if in the same direction, not to the same extent, in other words, if changes take place on both sides which alter the former proportion between these sides, then the final result must always lead to one of the two above mentioned cases.
II.X.36

The real difficulty in determining the meaning of the concepts supply and demand is that they seem to amount to a tautology. Consider

first the supply, either the product on the market, or the product which can be supplied to the market. In order to avoid useless details, we shall consider only the mass annually reproduced in every given line of production and leave out of the question the varying faculty of some commodities to withdraw from the market and go into storage for consumption at a later time, for instance next year. This annual reproduction is expressed in a certain quantity, in weight or numbers, according to whether this mass of commodities is measured continuously or discontinuously. They represent not only use-value satisfying human wants, but these use-values are on the market in definite quantities. In the second place, this quantity of commodities has a definite market-value, which may be expressed by a multiple of the market-value of the individual commodity, or of the measure, which serve as units. There is, then, no necessary connection between the quantitative volume of the commodities on the market and their market-value, since many commodities have, for instance, a high specific value, others a low specific value, so that a given sum of values may be represented by a very large quantity of some, and a very small quantity of other commodities. There is only this connection between the quantity of articles on the market and the market-value of these articles: Given a certain basis for the productivity of labor in every particular sphere of production, the production of a certain quantity of articles requires a definite quantity of social labor time; but this proportion differs in different spheres of production and stands in no internal relation to the usefulness of these articles or the particular

nature of their use-values. Assuming all other circumstances to be equal, and a certain quantity a of some commodity to cost b labor time, a quantity na of the same commodity will cost nb labor-time. Furthermore, if society wants to satisfy some demand and have articles produced for this purpose, it must pay for them. Since the production of commodities is accompanied by a division of labor, society buys these articles by devoting to their production a portion of its available labor-time. Society buys them by spending a definite quantity of the labor-time over which it disposes. That part of society, to which the division of labor assigns the task of employing its labor in the production of the desired article, must be given an equivalent for it by other social labor incorporated in articles which it wants. There is, however, no necessary, but only an accidental, connection between the volume of society's demand for a certain article and the volume represented by the production of this article in the total production, or the quantity of social labor spent on this article, the aliquot part of the total labor-power spent by society in the production of this article. True, every individual article, or every definite quantity of any kind of commodities, contains, perhaps, only the social labor required for its production, and from this point of view the market-value of this entire mass of commodities of a certain kind represents only necessary labor. Nevertheless, if this commodity has been produced in excess of the temporary demand of society for it, so much of the social labor has been wasted, and in that case this mass of commodities represents a much smaller quantity of labor on the

market than is actually incorporated in it. (Only when production will be under the conscious and prearranged control of society, will society establish a direct relation between the quantity of social labor time employed in the production of definite articles and the quantity of the demand of society for them.) The commodities must then be sold below their market-value, and a portion of them may even become unsaleable. The opposite takes place, if the quantity of social labor employed in the production of a certain kind of commodities is too small to meet the social demand for them. But if the quantity of social labor spent in the production of a certain article corresponds to the social demand for it, so that the quantity produced is that which is the ordinary on that scale of production and for that same demand, then the article is sold at its market-value. The exchange, or sale, of commodities at their value is the rational way, the natural law of their equilibrium. It must be the point of departure for the explanation of deviations from it, not vice versa the deviations the basis on which this law is explained.
II.X.37

Now let us look at the other side, the demand.
II.X.38

Commodities are bought either as means of production or means of subsistence, in order to be used for productive or individual consumption. It does not alter matters that some commodities may

serve both ends. There is, then, a demand for them on the part of the producers (who are capitalists in this case, since we have assumed that the means of production have been transformed into capital) and on the part of the consumers. It appears at first sight as though these two sides ought to have a corresponding quantity of social demands offset by a corresponding quantity of social supplies in the various lines of production. If the cotton industry is to accomplish its annual reproduction on a given scale, it must produce the usual quantity of cotton and an additional quantity determined by the annual extension of reproduction through the necessities of accumulating capital, always assuming other circumstances to remain the same. This is also true of means of subsistence. The working class must find at least the same quantity of necessities on hand, if it is to continue living in the accustomed way, although these necessities may be of different kinds and differently distributed. And there must be an additional quantity to allow for the annual increase of population. This applies with more or less modification to the other classes.
II.X.39

It would seem, then, that there is on the side of demand a definite magnitude of social wants which require for their satisfaction a definite quantity of certain articles on the market. But the quantity demanded by these wants is very elastic and changing. Its fixedness is but apparent. If the means of subsistence were cheaper, or money-wages higher, the laborers would buy more of them, and a greater "social

demand" would be manifested for this kind of commodities, leaving aside the question of paupers, whose "demand" is even below the narrowest limits of their physical wants. On the other hand, if cotton were cheaper, the demand of the capitalists for it would increase, more additional capital would be thrown into the cotton industry, etc. It must never be forgotten that the demand for productive consumption is a demand of capitalists, under our assumption, and that its essential purpose is the production of surplus-value, so that commodities are produced only to this end. Still this does not argue against the fact that the capitalist as a buyer, for instance of cotton, represents the demand for this cotton. Moreover it is immaterial to the seller of cotton, whether the buyer converts it into shirting or into guncotton, or whether he intends to make it into wads for his and the world's ears. But it does exert a considerable influence on the way in which the capitalist acts as a buyer. His demand for cotton is essentially modified by the fact that he disguises thereby his real demand, that of making profits. The limits within which the need for commodities on the market, the demand, differs quantitatively from the actual social need, varies naturally considerably for different commodities; in other words, the difference between the demanded quantity of commodities and that quantity which would be demanded, if the money-prices of the commodities, or other conditions concerning the money or living of the buyers, were different.
II.X.40

Nothing is easier than to realise the inequalities of demand and supply, and the resulting deviation of market-prices from market-values. The real difficulty consists in determining what is meant by balancing supply and demand.
II.X.41

Demand and supply balance one another, when their mutual proportions are such that the mass of commodities of a definite line of production can be sold at their market-value, neither above nor below it. That is the first thing we hear.
II.X.42

The second is this: If the commodities are sold at their market-values, then supply and demand balance.
II.X.43

If demand and supply balance, then they cease to have any effect, and for this very reason commodities are sold at their market-values. If two forces exert themselves equally in opposite directions, they balance one another, they have no influence at all on the outside, and any phenomena taking place at the same time must be explained by other causes than the influence of these forces. If demand and supply balance one another, they cease to explain anything, they do not affect market-values, and therefore leave us even more in the dark than before concerning the reasons for the expression of the market-

value in just a certain sum of money and no other. It is evident that the essential fundamental laws of production cannot be explained by the interaction of supply and demand (quite aside from a deeper analysis of these two motive forces of social production, which would be out of place here). For these laws cannot be observed in their pure state, until the effects of supply and demand are suspended, are balanced. As a matter of fact supply and demand never balance, or, if they do, it is by mere accident, it is scientifically rated at zero, it is considered as not happening. But political economy assumes that supply and demand balance one another. Why? For no other reason, primarily, than to be able to study phenomena in their fundamental relations, in that elementary form which corresponds to their conception, that is to say, to study them unhampered by the disturbing interference of supply and demand. The other reason is to find the actual tendencies of economic movements and to fix them, as it were. For the inequalities are of an antagonistic nature, and since they continually follow one after another, they balance one another by their opposite movements, by their opposition. Since supply and demand never balance each other in any given case, their differences follow one another in such a way that supply and demand are always balanced only when looking at them from the point of view of a greater or smaller period of time. For the result of a deviation in one direction is a deviation in the opposite direction. Such a balance is only an average of past movements, a result of a continual movement in contradictions. By this means the market-prices differing from the

market-values reduce one another to the average of market-values and balance the different plus and minus in their divergencies. And this average figure has not merely a theoretical, but also a practical, value for capital, since its investment is calculated on the fluctuations and compensations of more or less fixed periods of time.
II.X.44

The relation of demand and supply explains, therefore, on the one hand only the deviations of market-prices from market-values, and on the other the tendency to balance these deviations, in other words, to suspend the effect of the relation of demand and supply. (Such exceptions as commodities having prices without having any value are not considered here.) Demand and supply may bring about a balance in the effect caused by their inequalities in many different ways. For instance, if the demand, and consequently the market-price, fall, capital may be withdrawn and the supply reduced. But instead it may happen that the market-value itself is reduced and balanced with the market-price through inventions, which reduce the necessary labor time. Vice versa, if the demand increases, and consequently the market-price rises above the market-value, too much capital may flow into this line of production and production may be increased to such an extent, that the market-price finally falls below the market-value. Or, it may lead to a rise of prices which cuts down the demand. It may also bring about a rise in the market-value itself for a shorter or longer time, in some lines of production, in which a portion of the

desired products must be produced under more unfavorable conditions during this period.
II.X.45

If demand and supply determine the market-price, so does the market-price, and in the further analysis the market-value determine demand and supply. This is obvious in the case of demand, which moves in opposition to price, rising when prices fall, and falling when prices rise. But it may also be noted in the case of supply. For the prices of the means of production which are incorporated in the supplied commodities determine the demand for these means of production, and thus the supply of the commodities whose supply implies the demand for these means of production. The prices of cotton are determining elements for the supply of cotton goods.
II.X.46

This confusion of a determination of prices by demand and supply, and at the same time a determination of supply and demand by prices, is worse confounded by the determination of the supply by the demand, and the demand by supply, of the market by production, and of production by the market.*31
II.X.47

Even the ordinary economist (see our foot-note) recognizes that the proportion between supply and demand may vary in consequence of a

change in the market-value of commodities, without a change in the demand of supply by external circumstances. The author of the Observations continues after the passage quoted in the foot-note: "This proportion" (between demand and supply) "however, if we still mean by 'demand' and 'natural price' what we meant just now, when referring to Adam Smith, must always be a proportion of equality; for it is only when the supply is equal to the effectual demand, that is, to that demand, which will pay neither more nor less than the natural price, that the natural price is in fact paid; consequently there may be two very different natural prices, at different times, for the same commodity, and yet the proportion which the supply bears to the demand, be in both cases the same, namely the proportion of equality." It is admitted, then, that with two different natural prices of the same commodity at different times demand and supply may balance one another and must balance one another, if the commodity is to be sold at its natural price in both instances. Since there is no difference in the proportion of supply and demand in either case, but only a difference in the magnitude of the natural price itself, it follows that this price is determined independently of demand and supply, and cannot very well be determined by them.
II.X.48

In order that a commodity may be sold at its market-value, that is to say, in proportion to the necessary social labor contained in it, the total quantity of social labor devoted to the total mass of this kind of

commodities must correspond to the quantity of the social demand for them, meaning the solvent social demand. Competition, the fluctuations of market-prices which correspond to the fluctuations of demand and supply, tend continually to reduce the total quantity of labor devoted to each kind of commodities to this scale.
II.X.49

The proportion of supply and demand repeats, in the first place, the relation of the use-value and exchange-value of commodities, of commodity and money, of buyer and seller; in the second place, the relation of producer and consumer, although both of them may be represented by third merchants. In studying buyers and sellers, it is sufficient to confront them individually, in order to set forth their relations. Three individuals suffice for the complete metamorphosis of commodities, and therefore for the complete transactions of sale and purchase. A converts his commodity into the money of B, to whom he sells his commodity, and he reconverts his money into commodities which he buys for it from C. The whole transaction takes place between these three. Furthermore: In the study of money it had been assumed that the commodities are sold at their values, because there was no reason to take into consideration any divergence of prices from values, it being a question of changes of form experienced by the commodities in their transformation into money and their reconversion from money into commodities. As soon as a commodity has been sold and a new commodity bought with the receipts, we

have the entire metamorphosis before us, and for the consideration of this process it is immaterial whether the price of the commodity stands above or below its value. The value of the commodity is essential as a basis, because the concept of money cannot be developed on any other foundation but this one, and because price, in its general meaning, is but value in the form of money. Of course, it is assumed in the study of money as a medium of circulation that more than one metamorphosis of a certain commodity takes place. It is the social interrelation of these metamorphoses which is studied. Only by this means do we arrive at the circulation of money and at the development of its function as a medium of circulation. While this connection of the matter is very important for the transition of money into its function of a circulating medium, and for its resulting change of form, it is of no moment for the transaction between the individual buyer and seller.
II.X.50

In a question of supply and demand, however, the supply means the sum of the sellers, or producers, of a certain kind of commodities, and the demand the sum of the buyers, or consumers, of the same kind of commodities (both productive and individual consumers). There two bodies react on one another as units, as aggregate forces. The individual counts here only as a part of a social power, as an atom of some mass, and it is in this form that competition enforces the social character of production and consumption.

That side of competition, which is momentarily the weaker, is also that in which the individual acts independently of the mass of his competitors and often works against them, whereby the dependence of one upon the other is impressed upon them, while the stronger side always acts more or less unitedly against its antagonist. If the demand for this particular kind of commodities is larger than the supply, then one buyer outbids another, within certain limits, and thereby raises the price of the commodity for all of them above the market-price, while on the other hand the sellers unite in trying to sell at a high price. If, vice versa, the supply exceeds the demand, some one begins to dispose of his goods at a cheaper rate and the others must follow, while the buyers unite in their efforts to depress the market-price as much as possible below the market-value. The common interest is appreciated only so long as each gains more by it than without it. And common action ceases, as soon as this or that side becomes the weaker, when each one tries to get out of it by his own devices with as little loss as possible. Again, if some one produces more cheaply and can sell more goods, thus assuming more room on the market by selling below the current market-price, or market-value, he does it, and thereby he begins an action which gradually compels the others to introduce the cheaper mode of production and which reduces the socially necessary labor to a new, and lower, level. If one side has the advantage, every one belonging

to it gains. It is as though they had exerted their common monopoly. If one side is the weaker, then every one may try on his own hook to be the stronger (for instance, any one working with lower costs of production), or at least to get off as easily as possible, and in that case he does not care in the least for his neighbor, although his actions affect not only himself, but also all his fellow strugglers.*32 II.X.52

Demand and supply imply the transformation of values into market-prices, and to the extent that they proceed on a capitalist basis, to the extent that the commodities are products of capital, they are based on capitalist processes, that is, on quite different and more complicated conditions than the mere purchase and sale of goods. In these capitalist processes it is not a question of the formal conversion of the value of commodities, into prices, not a question of a mere change of form. It is a matter of definite differences in quantity between market-prices and market-values, and, further, prices of production. In simple purchases and sales, it is enough to consider merely the producers of articles as such. But supply and demand, in a wider analysis, imply the existence of different classes and sections of classes which divide the total revenue of society among themselves and consume it as revenue among themselves, which, therefore, constitute the demand in the form of revenue. On the other hand, the attempt to grasp the question of the supply and demand among the

producers as such requires an analysis of the total conformation of the capitalist process of production.
II.X.53

Under capitalist production it is not a question of merely throwing a certain mass of values into circulation and exchanging that mass for equal values in some other form, whether of money or other commodities, but it is also a question of advancing capital in production and realising on it as much surplus-value, or profit, in proportion to its magnitude, as any other capital of the same or of other magnitudes in whatever line of production. It is a question, then, of selling the commodities at least at prices which will yield the average profit, in other words, at prices of production. Capital comes in this form to a realisation of the social nature of its power, in which every capitalist participates in proportion to his share in the total social capital.
II.X.54

In the first place, capitalist production is essentially indifferent to the particular use-value, or the peculiarity, of any commodity produced by it. In every sphere of production it is the sole purpose of production to secure surplus-value, to appropriate in the product of labor a certain quantity of unpaid labor. And it is likewise the nature of the wage-labor subject to capital to be indifferent to the specific character of its labor, to transform itself in accord with the requirements of

capital, and to submit to being transferred from one sphere of production to another.
II.X.55

In the second place, one sphere of production is now as good or as bad as another. Every one of them yields the same profit, and every one of them would be useless, if the commodities produced by them did not satisfy some social need.
II.X.56

Now, if the commodities are sold at their values, then, as we have shown, considerably different rates of profit arise in the various spheres of production, according to the different organic composition of the masses of capital invested in them. But capital withdraws from spheres with low rates of profit and invades others which yield a higher rate. By means of this incessant emigration and immigration, in one word, by its distribution among the various spheres in accord with a rise of the rate of profit here, and its fall there, it brings about such a proportion of supply to demand that the average profit in the various spheres of production becomes the same, so that values are converted into prices of production. This equilibration is accomplished by capital in a more or less perfect degree to the extent that capitalist development is advanced in a certain nation, in other words, to the extent that conditions in the respective countries are adapted to the capitalist mode of production. As capitalist development

proceeds, it develops also its own peculiar conditions and subjects to its specific character and its immanent laws all the social requirements on which the process of production is based.
II.X.57

The incessant equilibration of the continual differences is accomplished so much quicker, 1), the more movable capital is, the easier it can be shifted from one sphere and one place to another; 2) the quicker labor-power can be transferred from one sphere to another and from one local point of production to another. The first condition implies complete freedom of trade in the interior of society and the removal of all monopolies with the exception of those which naturally arise out of the capitalist mode of production. It implies, furthermore, the development of the credit-system, which concentrates the inorganic mass of the disposable social capital instead of leaving it in the hands of individual capitalists. Finally it implies a subordination of the various spheres of production to the control of capitalists. This last implication is of itself included in the assumption that it is a question of a transformation of values into prices of production in all capitalistically exploited spheres of production. But this equilibration meets great obstacles, whenever numerous and large spheres of production, which are not operated on a capitalistic basis (such as farming by small farmers), are interpolated between the capitalist spheres and interrelated with them. A great density of population is also a requirement.‘The second condition implies the abolition of all laws

which prevent the laborers from moving from one sphere of production to another and from one local center of production to another; an indifference of the laborer to the nature of his labor; the greatest possible reduction of labor in all spheres of production to simple labor; the elimination of all craft prejudices among laborers; and last, not least, a subjugation of the laborer under the capitalist mode of production. More detailed statements concerning these points belong in a special analysis of competition.
II.X.58

It follows from the foregoing that the individual capitalist as well as the capitalists as a whole in each particular sphere of production are participants in the exploitation of the total working class by the total capital, and in the degree of that exploitation, not only out of general class sympathy, but also for direct economic reasons, because, assuming all other conditions, among them the value of the advanced constant capital, to be given, the average rate of profit depends on the intensity of exploitation of the total labor by the total capital.
II.X.59

The average profit coincides with the average surplus-value produced for each 100 of capital, and so far as the surplus-value is concerned, the foregoing statements apply as a matter of course. In the determination of the rate of profit, the value of the advanced capital becomes an additional element. In fact, the direct interest taken by

the capitalist, or the capital, of any individual sphere of production in the exploitation of the laborers directly employed by him, or it, is limited to the endeavor to make an extra gain, a profit exceeding the average, either by exceptional overwork, or by a reduction of wages below the average, or by an exceptional productivity of labor. Aside from this, a capitalist who would not employ any variable capital, and therefore no laborers (an exaggerated assumption), would be as much interested in the exploitation of the working class by capital, and would derive his profit quite as much from unpaid surplus-labor, as a capitalist who would employ only variable capital (another exaggeration), and who would invest his entire capital in wages. The degree of exploitation of labor depends on the average intensity of labor, if the working day is given, and on the length of the working day, if the average intensity of exploitation is given. The degree of exploitation of labor determines the size of the rate of surplus-value, and therefore the size of the mass of surplus-value for a given total mass of variable capital, and consequently the magnitude of the profit. The individual capitalist, as distinguished from his sphere, has the same special interest in the exploitation of the laborers personally employed by him that the capital of a certain sphere, as distinguished from the total social capital, has in the exploitation of the laborers directly employed by it.

II.X.60

On the other hand, every particular sphere of capital, and every individual capitalist, has the same interest in the productivity of the social labor employed by the total capital. For two things depend on this productivity: In the first place, the mass of use-values by which the average profit is expressed; and this is doubly important, where this average profit serves as a fund for the accumulation of new capital and as a fund for revenue to be spent in enjoyment. In the second place, the amount of the value of the total capital invested (constant and variable), which, with a given amount of surplus-value, or profit, for the whole capitalist class, determines the rate of profit, or the profit on a certain percentage of capital. The special productivity of labor in any particular sphere, or in any individual business of this sphere, interests only those capitalists who are directly engaged in it, since it enables that particular sphere, or that individual capitalist, to make an extra profit over that of the total capital.
II.X.61

Here, then, we have the mathematically exact demonstration, how it is that the capitalists form a veritable freemason society arrayed against the whole working class, however much they may treat each other as false brothers in the competition among themselves.
II.X.62

The price of production includes the average profit. We call it price of production. It is, as a matter of fact, the same thing which Adam

Smith calls natural price, Ricardo price of production, or cost of production, and the physiocrats prix nécessaire, because it is in the long run a prerequisite of supply, of the reproduction of commodities in every individual sphere.*33 But none of them has revealed the difference between price of production and value. We can well understand, then, why these same economists, who always resist a determination of the value of commodities by labor-time, by the quantity of labor contained in them, always speak of prices of production as centers, around which market-prices fluctuate. They can afford to do that, because the price of production is an utterly external and, at first glance, meaningless form of the value of commodities, a form as seen in competition and thus reflected in the mind of the vulgar capitalist, and consequently in that of the vulgar economists.
II.X.63

Our analysis resulted in the discovery that the market-value (and everything said concerning it applies with the necessary modifications to the price of production) implies a surplus-profit for those who produce in any particular sphere of production under the most favorable conditions. With the exception of crises, and of over-production in general, this applies to all market-prices, no matter how much they may deviate from market-values or market-prices of production. For the market-price signifies that the same price is paid for commodities of the same kind, although they may have been

produced under very different individual conditions and may have considerably different cost-prices. (We do not speak at this point of any surplus-profits due to monopolies in the strict meaning of the term, whether they are artificial or natural.)
II.X.64

A surplus-profit may also arise, when certain spheres of production are in a position to evade the conversion of the values of their commodities into prices of production, and thus a reduction of their profits to the average profit. We shall devote more attention to the further modifications of these two forms of surplus-profit in the part dealing with ground-rent.

Notes for this chapter

27.
In 1865, when Marx wrote these lines, they expressed as yet merely his "view." To-day, since we have the extended researches into the nature of primitive societies made from Maurer to Morgan, these things are accepted facts which hardly anyone cares to deny.‘F. E.
28.
Karl Marx, Critique of Political Economy, Berlin, 1859.
29.
Karl Marx, Critique of Political Economy, Berlin, 1859.
30.

The controversy between Storch and Ricardo, incidental to their discussion of ground rent (a controversy which is merely referring to the same object, while the two opponents take no notice of one another) whether the market-value (or rather what they call market-price and price of production respectively) is regulated by the commodities produced under the least favorable conditions (Ricardo), or by those produced under the most favorable circumstances (Storch), resolves itself into the fact that both are right and both wrong, and that both of them have left out of consideration the average case. Compare Corbett on the cases, in which the price is regulated by the commodities produced under the most favorable conditions.‘"It is not meant to be asserted by him (Ricardo) that two particular lots of two different articles, as a hat and a pair of shoes, exchange with one another when those two particular lots were produced by equal quantities of labor. By 'commodity' we must here understand the 'description of commodity', not a particular individual hat, pair of shoes etc. The whole labor which produces all the hats in England is to be considered, for this purpose, as divided among all the hats. This seems to me not to have been expressed at first, and in the general statements of this doctrine. (Observations on some verbal disputes in Political Economy, etc. London, 1821, pages 53, 54.)
31.
The following sagacious statements are great nonsense: "Where the quantity of wages, capital, and land, required to produce an article, have become different from what they were, that which Adam Smith

calls the natural price of it, is also different, and that price which was previously its natural price, becomes, with reference to this alteration, its market-price; because, though neither the supply, nor the quantity wanted may have changed"'both of them change here, just because the market-value, or, in the case of Adam Smith, the price of production, changes in consequence of a change of value'"that supply is not now exactly enough for those persons who are able and willing to pay what is now the cost of production, but is either greater or less than that; so that the proportion between the supply, and what is, with reference to the new cost of production, the effectual demand, is different from what it was. An alteration in the rate of supply will then take place, if there is no obstacle in the way of it, and at last bring the commodity to its new natural price. It may then seem good to some persons to say that, as the commodity gets to its natural price by an alteration in its supply, the natural price is as much owing to one proportion between the demand and supply, as the market-price is to another; and consequently, that the natural price, just as much as the market-price, depends on the proportion that demand and supply bear to each other. (The great principle of demand and supply is called into action to determine what A. Smith calls natural prices as well as market-prices, Malthus.)"'Observations on certain verbal disputes, etc., London, 1821, pages 60 and 61.'The good man does not grasp the fact that it is precisely the change in the cost of production, and thus in the value, which caused a change in the demand, in the present case, and thus in the proportion

between demand and supply, and that this change in the demand may bring about a change in the supply. This would prove just the reverse of what our good thinker wants to prove. It would prove that the change in the cost of production is by no means due to the proportion of demand and supply, but rather regulates this proportion.
32.
"If each man of a class could never have more than a given share, or aliquot part of the gains and possessions of the whole, he would readily combine to raise the gains" (he does it as soon as the proportion of demand to supply permits it); "this is monopoly. But where each man thinks that he may any way increase the absolute amount of his own share, though by a process which lessens the whole amount, he will often do it; this is competition." An Inquiry into those Principles respecting the Nature of Demand, etc. London, page 105.
33.
Malthus.

Part II,

Volume III Chapter XI EFFECTS OF GENERAL FLUCTUATIONS OF WAGES ON PRICES OF PRODUCTION.

II.XI.1

LET the average composition of social capital be 80 c + 20 v, with a profit of 20%. The rate of surplus-value is then 100%. A general increase of wages, all other things remaining the same, is a reduction of the rate of surplus-value. In the case of the average capital, profit and surplus-value are identical. Let wages rise by 25%. Then the same quantity of labor, which was formerly set in motion with 20, costs 25. Instead of 80 c + 20 v + 20 p, we have then for the value of one turn-over 80 c + 25 v + 15 p. The labor set in motion by the variable capital still produces a value of 40, the same as before. If v rises from 20 to 25, then the surplus p, or s, amounts only to 15. The profit of 15 on a capital of 105 is 14 2/7%, and this would be the new average rate of profit. Since the price of production of commodities produced by the average capital coincides with their value, the price of production of these commodities would remain unchanged. The raising of wages would have brought about a reduction of profits, but no change in the value and price of the commodities.

II.XI.2

Formerly, so long as the average profit was 20%, the price of production of the commodities produced in one period of turn-over was equal to their cost-price plus a profit of 20% on this cost-price, in other words k + kp' = k + 20 k/100. In this formula k is a variable magnitude, changing according to the value of the means of production which are incorporated in the commodities, and according

to the amount of wear transferred from the fixed capital to the product. Now the price of production would amount to k + (14 2/7 k)/100.

II.XI.3

Now let us first select a capital, whose composition is lower than the original composition of the average social capital of 80 c + 20 v (which has now been transformed into 76 4/21 c+ 23 17/21 v), for instance a capital of 50 c + 50 v. In this case, the price of production of the annual product, assuming for the sake of simplicity that the entire fixed capital passes through wear into the product and that the time of turn-over is the same as that in the first case, would have been 50 c + 50 v + 20 p, or 120, before the raising of wages. A raising of wages by 25% means for the same quantity of labor a rising of the variable capital from 50 to 62½. If the annual product were sold at the former price of production of 120, then we should have the formula 50 c + 62½ v + 7½ p, or a rate of profit of 6 2/3%. But the new average rate of profit is 14 2/7%, and since we assume all other circumstances to remain the same, this capital of 50 c + 62½ v will also have to make this profit. Now, a capital of 112½ makes a round profit of 16 1/12 at a rate of profit of 14 2/7%. Therefore the price of production of the commodities produced by this capital is now 50 c + 62½ v + 16 1/12 p = 128 7/12. In consequence of a raise in wages of 25%, the price of production of

the same quantity of the same commodities has risen from 120 to 128 7/12, or more than 7%.
II.XI.4

Vice versa, let us select a sphere of production of a higher composition than the average capital, for instance a capital of 92 c + 8 v. The original average profit in this case would still be 20, and if we assume once more that the entire fixed capital passes into the annual product, and that the time of turn-over is the same as in the first and second case, the price of production of the commodities is also 120.
II.XI.5

In consequence of the rise of wages by 25% the variable capital for the same quantity of labor rises from 8 to 10, the cost-price of the commodities from 100 to 102, while the average rate of profit has fallen from 20% to 14 2/7%. Now 100 : 14 2/7 = 102 : 14 4/7 (approximately). The profit now falling to the share of 102 is 14 4/7. Therefore the total product sells at k + kp', or 102 + 14 4/7, or 116 4/7. The price of production has fallen from 120 to 116 4/7, or more than 3%.
II.XI.6

Consequently, if wages are raised by 25%,

1) the price of production of the commodities of a capital of average composition is not changed;

2) the price of production of the commodities of a capital of lower composition rises, but not in the same proportion in which the profit falls;

3) the price of production of the commodities of a capital of higher composition falls, but not as much as the profit.

II.XI.7

Since the price of production of the commodities of the average capital remains the same and equal to the value of the product, it follows that the sum of the prices of production of the products of all capitals remain the same and equal to the sum of the values produced by the total social capital. The increase on one side is balanced by the decrease on the other and the level of the average social capital maintained for the total social capital.

II.XI.8

Seeing that the price of production in the second illustration rises, while it falls in the third, it is evident from these opposite effects brought about by a fall in the rate of surplus-value or by a general rise of wages that there is no prospect of any compensation in the price for the rise in wages, since the fall of the price of production in No. III cannot very well compensate the capitalist for the fall in the

profit, and since the rise of the price in No. II does not prevent a fall in profit. On the contrary, in either case, whether the price rises or falls, the profit remains the same as that of the average capital whose price remains unchanged. It is the same average profit, which has fallen by 5 5/7, or about 25%, in the case of II as well as III. It follows from this, that if the price did not rise in II and fall in III, II would have to sell below and III above the new, recently reduced, average profit. It is quite evident that a rise of wages must affect a capitalist who has invested one-tenth of his capital in wages differently from one who has invested one-fourth or one-half, according to whether 50, 25, or 10 per hundred of capital are advanced for wages. An increase in the price of production on one side, and a fall on the other, according to whether a capital is below or above the average social composition, is effected only by leveling to the new reduced average profit.

II.XI.9

Now, how would a general fall of wages, and a corresponding general rise of the rate of profit, and thus of the average profit, affect the prices of production of commodities produced by capitals diverging in opposite directions from the average social composition? We have but to reverse the foregoing statements, in order to find the answer (which Ricardo did not analyse).

II.XI.10

I. Average capital 80 c + 20 v = 100; rate of surplus-value 100%; price of production = value of commodities = 80 c + 20 v + 20 p = 120; rate of profit 20%. Let wages fall by one-fourth. Then the same constant capital is set in motion by 15 v, instead of 20 v. We have then as the value of commodities 80 c + 15 v + 25 p = 120. The quantity of labor employed by v remains the same, only the newly created value is differently distributed between the capitalist and the laborers. The surplus-value increases from 20 to 25, and the rate of surplus-value from 20/20 to 25/15, in other words, from 100% to 166 2/3%. The profit on 95 is now 25, so that the rate of profit per 100 is 26 6/19. The composition of the capital in percentages is now 84 4/19 + 15 15/19 = 100.
II.XI.11

II. Lower composition. Original composition, as above, 50 c + 50 v. By the fall of wages by one-fourth v is reduced to 37½, and consequently the advanced total capital to 50 c + 37½ v = 87½. Applying to this the new rate of profit of 26 6/19%, we get 100 : 26 6/19 = 87½ : 23 1/38. The same mass of commodities which formerly cost 120, now costs 87½ + 23 1/38 = 100 10/19. A fall in prices of almost 10%.
II.XI.12

III. Higher composition. Original composition 92 c + 8 v = 100. The fall in wages by one-fourth reduces 8 v to 6 v, and the total capital

to 98. Consequently 100 : 26 6/19 = 98 : 25 15/19. The price of production of the commodities, formerly 100 + 20 = 120, is now, after the fall in wages, 98 + 25 15/19 = 123 15/19. A rise by almost 4%. II.XI.13

We see, then, that we have but to follow the preceding development in the opposite direction with the necessary, modifications; that a general fall of wages carries with it a general rise of surplus-value, of the rate of surplus-value, and, other circumstances remaining the same, also of the rate of profit, although expressed by different proportions; a fall in the prices of production for the commodities produced by capitals of lower composition, a rise in the prices of production for commodities produced by capitals of higher composition. The result is just the reverse of that following a general rise of wages.*34 In both cases, whether of a rise or a fall, the assumption is that the working day remains the same, also the prices of the means of subsistence. Under these circumstances, a fall in wages is possible only, if wages stood higher than the normal price of labor, or if they are depressed below this price. The way in which this condition is modified, if the rise or fall of wages is due to a change in value, and consequently in the price of production of commodities usually consumed by the laborer, will be to a certain extent analysed in the part dealing with ground-rent. At this place we make for once and all the following statements:

If a rise or fall in wages is due to a change in the value of the necessities of life, then a modification of the above findings can take place only to the extent that the commodities, whose variation of price raises or lowers the variable capital, pass also as constituent elements into the constant capital and consequently do not affect wages alone. But to the extent that they affect only wages, the above analysis contains all that needs to be said.

II.XI.14

In this entire chapter, it is assumed as a fact that there are in existence a general rate of profit, an average profit, and a conversion of values into prices of production. The question was merely in what manner a general rise or fall in wages affected the prices of production of commodities, which were assumed to exist. This is but a very secondary question compared with the important points analysed in this part. But it is the only relevant question treated by Ricardo, and we shall see that he treated even this but onesidedly and imperfectly.

Notes for this chapter

34.
It is very peculiar that Ricardo (who naturally proceeds differently from us, since he did not understand the compensation of values to

prices of production) did not even think of this eventuality, but considered only the first case, that of a rise of wages and its influence on the prices of production of commodities. And the servile herd of imitators did not even make an attempt to advance so much as to apply the practical, or even tautological, test.

Part II,

Volume III Chapter XII SOME AFTER REMARKS.

I. Causes Implying a Variation of the Price of Production.

II.XII.1

THE price of production of a commodity can vary only from two causes:
II.XII.2

1) The average rate of profit varies. This can be due only to a change in the average rate of surplus-value, or, if the average rate of surplus-value remains the same, by a change in the proportion of the sum of the appropriated surplus-values to the sum of the advanced total capital of society.
II.XII.3

Unless a variation of the rate of surplus-value is due to a depression of wages below normal, or their rise above normal,‘and such movements must be considered as mere oscillations‘it can take place only for two reasons: Either the value of labor-power may have risen or fallen. The one eventuality is as impossible as the other without a change in the productivity of that labor which produces means of subsistence, in other words, without a change in the value of the commodities which are consumed by the laborer. Or, the proportion of the sum of appropriated surplus-values to the advanced total capital of society varies. Since the variation in this case is not due to the rate of surplus-value, it must be due to the total capital, or rather to its constant part. The mass of this part, technically speaking, increases or decreases in proportion to the quantity of labor-power bought by the variable capital, and the mass of its value increases or decreases with the increase or decrease of its own mass. Its mass of value, then, increases or decreases likewise in proportion to the mass of the value of the variable capital. If the same labor sets more constant capital in motion, labor has become more productive. If less, less productive. There has then been a change in the productivity of labor, and a change must have taken place in the value of certain commodities.
II.XII.4

The following rule, then, applies to both cases: If the price of production of a certain commodity changes in consequence of a

change in the average rate of profit, its own value may have remained unchanged, but a change must have taken place in the value of other commodities.
II.XII.5

2) The average rate of profit remains unchanged. In that case the price of production of a commodity cannot change, unless its own value has changed. This may be due to the fact that more or less labor is required to produce this commodity, either because the productivity of that labor varies, which produces this commodity in its final form, or of that labor which produces the commodities consumed in its production. Cotton yarn may vary in its price of production, either because cotton is produced at a lower figure, or because the labor of spinning has become more productive in consequence of improved machinery.
II.XII.6

As we have seen before, the price of production is equal to k + p, equal to cost-price plus profit. This implies k + kp', and k, cost-price, stands here for a variable magnitude, which changes according to different spheres of production, but is everywhere equal to the value of the constant and variable capital consumed in the production of commodities, while p' stands for the percentage of the average rate of profit. If k = 200, and p' = 20%, the price of production k + kp' is equal to 200 + 200 20/ 100 = 200 + 40 = 240. It is evident that this

price of production may remain the same, although the value of the commodities may change.

II.XII.7

All changes in the price of production of commodities reduce themselves in the last analysis to changes in value. But not every change in the value of commodities needs to find expression in a change of the price of production. For this price is not determined merely by the value of any particular commodity, but by the aggregate value of all commodities. A change in commodity A may eventually be balanced by an opposite change of commodity B, so that the general proportion remains the same.

II. Price of Production of Commodities of Average Composition.

II.XII.8

We have seen that a deviation of the prices of production from the values may be brought about by the following means:

1) By adding to the cost-price of a commodity, not the surplus-value contained in it, but the average profit.

2) By transferring a price of production, which thus differs from the value of some particular commodity, to the cost-price of some other commodity which consumes the first commodity as one of its

elements, so that the cost-price of a certain commodity may already contain a deviation from the value of the means of production consumed by it, quite aside from the deviation, which it may still experience on its own account through a difference between the average profit and the surplus-value.

II.XII.9

It is therefore possible that the cost-price may differ from the sum of the values of those elements which make up this portion of the price of production, even in the case of commodities produced by capitals of average composition. Take it that the average composition is 80 c + 20 v. Now it is possible that in the actual capitals of this composition 80 c may be greater or smaller than the value of c, the constant capital, because this c may be made up of commodities whose price of production differs from their value. In the same way 20 v might differ from its value, if the laborer consumes commodities whose price of production differs from their value, in which case the laborer would work a longer or shorter time for their reproduction, and would thus perform more or less necessary labor, then would be required, if the price of production of the necessities of life coincided with their value.

II.XII.10

However, this possibility does not alter the correctness of the rules laid down for commodities of average composition. The quantity of profit falling to the share of these commodities is equal to the quantity of surplus-value contained in them. For instance, the most important point in a capital of the above composition, 80 c + 20 v, so far as the determination of surplus-value is concerned, is not whether these figures are expressions of actual values, but whether this represents their actual proportion to one another, in other words, whether v is one-fifth, and c four-fifths, of the total capital, Whenever this is actually the case, as was assumed above, then the surplus-value produced by v is equal to the average profit. On the other hand, seeing that this surplus-value is equal to average profit, the price of production, or cost-price plus profit, k +p, is equal to k + s, that is, practically equal to the value of these commodities. This implies that a rise or a fall in wages would not change the price of production, k + p, any more than it would change the value of these commodities. It would merely effect a corresponding opposite movement on the side of profit, a fall or a rise. For if a rise or a fall of wages were to bring about a change in the price of commodities of average composition, then the rate of profit in these spheres of average composition would rise above, or fall below, the level it holds in other spheres. The sphere of average composition maintains the same level of profit as the other spheres only so long as the price remains unchanged. The practical result in the case of this sphere of average composition is the same as though its products were sold at

their value. For if commodities are sold at their actual values, it is evident that, other circumstances remaining equal, a rise or a fall in wages will cause a corresponding fall or rise in profits, but no change in the value of commodities, and that under all circumstances a rise or a fall in wages can never affect the value of commodities, but only the magnitude of the surplus-value.

III. Fluctuations for which the Capitalist makes Allowance.

II.XII.11

It has been said that competition levels the rates of profit of the different spheres of production into an average rate of profit and thereby transforms the values of the products of these different spheres into prices of production. This is accomplished by continually transferring capital from one sphere to another, in which the profit happens to stand above the average for the moment. The fluctuations of profit due to the cycle of fat and lean years, following each other in any given line of industry during given periods, must be taken into consideration, of course. These incessant emigrations and immigrations of capital, which take place between the different spheres of production, create rising and falling movements of the rate of profit. These movements balance one another more or less and thereby create a tendency to reduce the rate of profit everywhere to the same common and universal level.

II.XII.12

This movement of capitals is caused primarily by the stand of the market-prices, which lift profits above the level of the universal average in one place and depress them below it in another. We leave out of consideration, for the present, merchant's capital. We know from the sudden paroxysms of speculation in certain favorite articles that this merchants' capital can draw masses of capital from a certain line of business with extraordinary rapidity and throw them with equal rapidity into another. But we have nothing to do with merchants' capital at this place. So far as the sphere of actual production is concerned, that is, industries, agriculture, mining, etc., the transfer of capital from one sphere to another offers considerable difficulty, particularly on account of the existing fixed capital. Moreover, experience demonstrates that, if a certain line of industry, for instance the cotton industry, yields extraordinary profits at one period, it suffers losses, or makes very little profit, at some other period, so that the average profit within a certain cycle of years is pretty much the same as in other lines. And capital soon learns to take this experience into account.

II.XII.13

What competition does not show is the way in which value is determined and the movement of production dominated by this determination. It does not show the values that stand behind the

prices of production and determine them in the last instance. Competition does show, on the other hand, the following things: 1) The average profits independent of the organic composition of capital in the different spheres of production, and therefore also independent of the mass of living labor appropriated by any given capital in any particular sphere of exploitation. 2) A rise and fall of prices of production as a result of changes in the level of wages, a phenomenon which flatly contradicts at first sight the law of value of commodities. 3) The fluctuations of market-prices, which reduce the average market-price of commodities in a given period of time, not to the market-value, but to a market-price of production differing considerably from this market-value. All these phenomena seem to contradict the determination of value by labor-time as much as the fact that surplus-value consists of unpaid surplus-labor. Everything appears upside down in competition. The existing conformation of economic conditions, as seen in reality on the surface of things, and consequently in the conceptions which the leading human agents of these conditions form in trying to understand them, are not only different from the internal and disguised essence of these conditions, and from the conceptions corresponding to this essence, but actually opposed to them, or their reverse.
II.XII.14

Furthermore, as soon as capitalist production has reached a certain degree of development, the reduction of the different rates of profit of

the individual spheres to the level of the average rate of profit no longer proceeds solely by virtue of the play of attraction and repulsion, by which the market prices attract or repel capital. After the average prices, and the market-prices corresponding to them, have become stable for a time, the capitalists become conscious of the fact that this leveling process balances definite differences. And then they allow for these differences in their mutual calculations. The differences exist in the consciousness of the capitalists and are taken into consideration as fluctuations for which allowance must be made. II.XII.15

At the bottom of all conceptions lies that of the average profit, to-wit, that capitals of the same magnitude must yield the same profits in the same time. This, again, is based on the assumption that the capital of each sphere of production shares in the total profit squeezed out of the laborers by the total social capital in proportion to its magnitude; or, that every individual capital should be regarded merely as a part of the total social capital, and every capitalist as a shareholder in the total social enterprise, each sharing in the total profit in proportion to the magnitude of his share of capital. II.XII.16

These conceptions serve as a basis for the calculations of the capitalist, for instance the assumption that a capital which is turned over more slowly than another, because its commodities require a

longer time for their production, or because they must be sold in more remote markets, should nevertheless charge the profit it loses in this way and reimburse itself by putting up the price. Another idea is that capitals invested in lines which are exposed to considerable danger, for instance in shipping, should be compensated by a raise in prices. As soon as capitalist production, and the insurance business, are developed, the danger is equalised for all spheres of production (see Corbett); but the capitals invested in more than ordinarily dangerous enterprises have to pay higher insurance rates and recover them in the prices of their commodities. All this amounts in practice to saying that every circumstance (and all of them are considered equally necessary within certain limits), which renders one line of production profitable, and another less, are calculated as legitimate grounds for compensation, without requiring the ever renewed action of competition to demonstrate the justification of such claims. The capitalist simply forgets, or rather he does not see, because competition does not show it to him, that all these claims for compensation mutually advanced by the capitalists in the calculation of the prices of commodities of different lines of production repeat in another way the idea that all capitalists are entitled, in proportion to the magnitude of their respective capitals, to equal shares of the common loot, the total surplus-value. They are rather under the impression, seeing that the profit pocketed by them differs from the surplus-value appropriated by them, that those grounds for compensation do not equalise their participation in the total surplus-

value, but that they rather create the profit itself, which is supposed to originate in an addition to the price of their commodities, for which they advance different excuses.
II.XII.17

In other respects the statements made in chapter VII concerning the assumptions of the capitalists as to the source of surplus-value apply also in this instance. The present case differs a little from those in chapter VII, but only to the extent that a saving in cost-price depends on individual ability, attention to business, etc., assuming the market-price of commodities and the degree of exploitation of labor to be given.

PART III.
THE LAW OF THE FALLING TENDENCY OF THE RATE OF PROFIT.
Part III,

Volume III Chapter XIII THE THEORY OF THE LAW.

III.XIII.1

WITH a given wage and working day, a certain variable capital, for instance of 100, represents a certain number of employed laborers. It is the index of this number. For instance, let 100 p.st. be the wages of 100 laborers for one week. If these laborers perform the same

amount of necessary as of surplus-labor, in other words, if they work daily as much time for themselves as they do for the capitalist, or, in still other words, if they require as much time for the reproduction of their wages as they do for the production of surplus-value for the capitalist, then they would produce a total value of 200 p.st., and the surplus-value would amount to 100 p.st. The rate of surplus-value, s/V, would be 100%. But we have seen that this rate of surplus-value would express itself in considerably different rates of profit, according to the different volumes of constant capitals c and consequently of total capitals C. For the rate of profit is calculated by the formula s/C.

III.XIII.2

Take it that the rate of surplus-value is 100%. Now, if

c = 50, and v = 100, then p' = 100/150, or 66 1/3%.
c = 100, and v = 100, then p' = 100/200, or 50%.
c = 200, and v = 100, then p' = 100/300, or 33 1/3%.
c = 300, and v = 100, then p' = 100/400, or 25%.
c = 400, and v = 100, then p' = 100/500, or 20%.

III.XIII.3

In this way, the same rate of surplus-value, with the same degree of labor exploitation, would express itself in a falling rate of profit, because the material growth of the constant capital, and consequently

of the total capital, implies their growth in value, although not in the same proportion.
III.XIII.4

If it is furthermore assumed that this gradual change in the composition of capital is not confined to some individual spheres of production, but occurs more or less in all, or at least in the most important ones, so that they imply changes in the organic average composition of the total capital of a certain society, then the gradual and relative growth of the constant over the variable capital must necessarily lead to a gradual fall of the average rate of profit, so long as the rate of surplus-value, or the intensity of exploitation of labor by capital, remain the same. Now we have seen that it is one of the laws of capitalist production that its development carries with it a relative decrease of variable as compared with constant capital, and consequently as compared to the total capital, which it sets in motion. This is only another way of saying that the same number of laborers, the same quantity of labor-power set in motion by a variable capital of a given value, consume in production an ever increasing quantity of means of production, such as machinery and all sorts of fixed capital, raw and auxiliary materials, and consequently a constant capital of ever increasing value and volume, during the same period of time, owing to the peculiar methods of production developing within the capitalist system. This progressive relative decrease of the variable capital as compared to the constant, and consequently to the total,

capital is identical with the progressive higher organic composition of the average social capital. It is, in another way, but an expression of the progressive development of the productive powers of society, which is manifested by the fact that the same number of laborers, in the same time, convert an ever growing quantity of raw and auxiliary materials into products, thanks to the growing application of machinery and fixed capital in general, so that less labor is needed for the production of the same, or of more, commodities. This growing value and volume of constant capital corresponds to a progressive cheapening of products, although the increase in the value of the constant capital indicates but imperfectly the growth in the actual mass of use-values represented by the material of the constant capital. Every individual product, taken by itself, contains a smaller quantity of labor than the same product did on a lower scale of production, in which the capital invested in wages occupies a far greater space compared to the capital invested in means of production. The hypothetical series placed at the beginning of this chapter expresses, therefore, the actual tendency of capitalist production. This mode of production produces a progressive decrease of the variable capital as compared to the constant capital, and consequently a continuously rising organic composition of the total capital. The immediate result of this is that the rate of surplus-value, at the same degree of labor-exploitation, expresses itself in a continually falling average rate of profit. (We shall see later why this fall does not manifest itself in an absolute form, but rather as a

tendency toward a progressive fall.) This progressive tendency of the average rate of profit to fall is, therefore, but a peculiar expression of capitalist production for the fact that the social productivity of labor is progressively increasing. This is not saying that the rate of profit may not fall temporarily for other reasons. But it demonstrates at least that it is the nature of the capitalist mode of production, and a logical necessity of its development, to give expression to the average rate of surplus-value by a falling rate of average profit. Since the mass of the employed living labor is continually on the decline compared to the mass of materialised labor incorporated in productively consumed means of production, it follows that that portion of living labor, which is unpaid and represents surplus-value, must also be continually on the decrease compared to the volume and value of the invested total capital. Seeing that the proportion of the mass of surplus-value to the value of the invested total capital forms the rate of profit, this rate must fall continuously.
III.XIII.5

Simple as this law appears from the foregoing statements, all of political economy has so far tried in vain to discover it, as we shall see later on. The economists saw the problem and cudgeled their brains in tortuous attempts to interpret it. Since this law is of great importance for capitalist production, it may be said to be that mystery whose solution has been the goal of the entire political economy since Adam Smith. The difference between the various schools since Adam

Smith consists in their different attempts to solve this riddle. If we consider, on the other hand, that political economy up to the present has been tinkering with the distinction between constant and variable capital without ever defining it accurately; that it never separated surplus-value from profit, and never even considered profit in its purely theoretical form, that is, separated from its different subdivisions, such as industrial profit, commercial profit, interest, ground rent; that it never thoroughly analyzed the differences in the organic composition of capital, and for this reason never thought of analyzing the formation of an average rate of profit; if we consider all this, we no longer wonder at its failure to solve the riddle.
III.XIII.6

We intentionally analyze first this law, before we pass on to a consideration of the different independent categories into which profit is subdivided. The fact that this analysis is made independently of the subdivisions of profit, which fall to the share of different categories of persons, shows in itself that this law, in its general workings, is independent of those subdivisions and of the mutual relations of the resulting categories of profit. The profit to which we are here referring is but another name for surplus-value itself, which is merely observed in its relation to the total capital, instead of its relation to the variable capital from which it arises. The fall in the rate of profit therefore expresses the falling relation of surplus-value itself to the total capital,

and is for this reason independent of any division of this profit among various participants.
III.XIII.7

We have seen that a certain stage of capitalist development, in which the organic composition of capital, c : v shows the proportion of 50 : 100, expresses a rate of surplus-value of 100% by a rate of profit of 66 2/3%, and that a higher stage, in which c : v shows the proportion 400:100, expresses the same rate of surplus-value by a rate of profit of only 20%. What is true of different successive stages in the same country, is also true of different contemporaneous stages of development in different countries. In an undeveloped country, in which the first-named composition of capital is the rule, the average rate of profit would be 66 2/3%, while in a country with the other, higher, stage of development, the average rate of profit would be 20%.
III.XIII.8

The difference between two national rates of profit might be eliminated, or even reversed, if labor were less productive in the less developed country, so that a larger quantity of labor would be incorporated in a smaller quantity of the same commodities, a larger exchange-value represented by a smaller use-value, so that the laborer would consume a larger portion of his time in the reproduction of his own means of subsistence, or of their value, and have less

time to spare for the production of surplus-value, and consequently would perform less surplus-labor, so that the rate of surplus-value would be lower. For instance, if the laborer of the less developed country were to work two-thirds of the working day for himself, and one-third for the capitalist, then, referring to the above illustration, the same labor-power would be paid with 133 1/3 and would furnish a surplus of only 66 2/3. A constant capital of 50 would correspond to a variable capital of 133 1/3. The rate of surplus-value would then amount to 133 1/3 : 66 2/3 = 50%, and the rate of profit to 183 1/3 : 66 2/3 = about 36½%.
III.XIII.9

Since we have not analysed the different subdivisions of profit, so that they do not exist for the present so far as we are here concerned, we make the following preliminary remarks merely in order to prevent misunderstanding: It would be a mistake to measure the level of the national rate of profit by, say, the level of the national rate of interest, when comparing countries in different stages of development, especially when comparing countries with a developed capitalist production to countries, in which labor has not yet been fully subjected to capital, although the laborer may already be exploited by the capitalist, as happens, for instance, in India, where the ryot manages his farm as an independent producer, whose production, strictly so called, is not yet under the complete sway of capital, although the usurer may not only rob him of his entire surplus-labor

by means of interest, but also curtail his wages, to use a capitalist term. For the interest of such stages comprises all of the profit, and more than the profit, instead of merely expressing an aliquot part of the produced surplus-value, or profit, as it does in countries with a developed capitalist production. On the other hand, the rate of interest in capitalist countries is overwhelmingly determined by conditions (loans granted by usurers to owners of large estates who draw ground-rent) which have nothing to do with profit, but which merely indicate to what extent usury appropriates ground-rent.
III.XIII.10

In countries with capitalist production in different stages of development, and consequently with capitals of different organic composition, a country with a short normal working day may have a higher rate of surplus-value (the one factor which determines the rate of profit) than a country with a long normal working day. In the first place, if the English working day of 10 hours, on account of its higher intensity, is equal to an Austrian working day of 14 hours, then dividing the working day equally in both instances, 5 hours of English surplus-labor may represent a greater value on the world-market than 7 hours of Austrian surplus-labor. In the second place, a larger portion of the English working day may represent surplus-labor than of the Austrian working day.
III.XIII.11

The law of the falling tendency of the rate of profit, which is the expression of the same, or even of a higher, rate of surplus-value, says in so many words: If you take any quantity of the average social capital, say a capital of 100, you will find that an ever larger portion of it is invested in means of production, and an ever smaller portion in living labor. Since, then, the aggregate mass of the living labor operating the means of production decreases in comparison to the value of these means of production, it follows that the unpaid labor, and that portion of value in which it is expressed, must decline as compared to the value of the advanced total capital. Or, an ever smaller aliquot part of the invested total capital is converted into living labor, and this capital absorbs in proportion to its magnitude less and less surplus-labor, although the proportion of the unpaid part of the employed labor may simultaneously grow as compared with the paid part. The relative decrease of the variable, and the relative increase of the constant, capital, while both parts may grow absolutely in magnitude, is but another expression for the increased productivity of labor.

III.XIII.12

Let a capital of 100 consist of 80 c + 20 v, and let the 20 v stand for 20 laborers. Let the rate of surplus-value be 100%, that is to say, the laborers work one-half of the day for themselves and the other half for the capitalist. Now take a less developed country, in which a capital of 100 is composed of 20 c + 80 v, and let these 80 v stand

for 80 laborers. But let these laborers work two-thirds of the day for themselves, and only one-third for the capitalists. Assuming all other things to be equal, the laborers in the first case will produce a value of 40, while those in the second case will produce a value of 120. The first capital produces 80 c + 20 v + 20 s = 120; rate of profit 20%. The second capital produces 20 c+80 v+40 s=140; rate of profit 40%. In other words, the rate of profit in the second case is double that of the first case, and yet the rate of surplus-value in the first case is 100%, while it is only 50% in the second case. But a capital of the same magnitude appropriates in the first case the surplus-labor of only 20 laborers, while it appropriates that of 80 laborers in the second case.

III.XIII.13

The law of the falling tendency of the rate of profit, or of the relative decline of the appropriated surplus-labor compared to the mass of materialised labor set in motion by living labor does not argue in any way against the fact that the absolute mass of the employed and exploited labor set in motion by the social capital, and consequently the absolute mass of the surplus-labor appropriated by it, may grow. Nor does it argue against the fact that the capitals controlled by individual capitalists may dispose of a growing mass of labor and surplus-labor, even though the number of the laborers employed by them may not grow.

III.XIII.14

Take for illustration's sake a certain population of working people, for instance, two millions. Assume, furthermore, that the length and intensity of the average working day, and the level of wages, and thereby the proportion between necessary and surplus-labor, are given. In the case the aggregate labor of these two millions, and their surplus-labor expressed in surplus-value, represent always the same magnitude of values. But with the growth of the mass of the constant (fixed and circulating) capital, which this labor manipulates, the proportion of this produced quantity of values declines as compared to the value of this total capital. And the value of this capital grows with its mass, although not in the same proportion. This proportion, and consequently the rate of profit, falls in spite of the fact that the same mass of living labor is controlled as before, and the same amount of surplus-labor absorbed by the capital. This proportion changes, not because the mass of living labor decreases, but because the mass of the materialised labor set in motion by living labor increases. It is a relative decrease, not an absolute one, and has really nothing to do with the absolute magnitude of the labor and surplus-labor set in motion. The fall of the rate of profit is not due to an absolute, but only to a relative decrease of the variable part of the total capital, that is, its decrease as compared with the constant part.
III.XIII.15

The same thing which applies to any given mass of labor and surplus-labor, applies also to a growing number of laborers, and thus under the above assumptions, to any growing mass of the controlled labor in general and to its unpaid part, the surplus-labor, in particular. If the laboring population increases from two million to three million, if, furthermore, the variable capital invested in wages also rises to three million from its former amount of two million, while the constant capital rises from four million to fifteen million, then the mass of surplus-labor, and of surplus-value, under the above assumption of a constant working day and a constant rate of surplus-value, rises by 50%, that is, from two million to three million. Nevertheless, in spite of this growth in the absolute mass of surplus-labor and surplus-value by 50%, the proportion of the variable to the constant capital would fall from 2 : 4 to 3 : 15, and the proportion of the surplus-value to the total capital, expressed in millions, would be

I. 4 c + 2 v + 2 s; C = 6, p' = 33 1/3%.
II. 15 c + 3 v + 3 s; C = 18, p' = 16 2/3%.
III.XIII.16

While the mass of surplus-value has increased by one-half, the rate of profit has fallen by one-half. However, the profit is only the surplus-value calculated on the total social capital, so that its absolute magnitude, socially considered, is the same as the absolute magnitude of the surplus-value. In this case, the absolute magnitude of the profit

would have grown by 50%, in spite of its enormous relative decrease compared to the advanced total capital, or in spite of the enormous fall of the average rate of profit. We see, then, that in spite of the progressive fall of rate of profit, there may be an absolute increase of the number of laborers employed by capital, an absolute increase of the labor set in motion by it, an absolute increase of the mass of surplus-labor absorbed, a resulting absolute increase of the produced surplus-value, and consequently an absolute increase in the mass of the produced profit. And this increase may be progressive. And it may not only be so. On the basis of capitalist production, it must be so, aside from temporary fluctuations.
III.XIII.17

The capitalist process of production is essentially a process of accumulation. We have shown that the mass of values, which must be simply reproduced and maintained, increases progressively with the development of capitalist production to the extent that the productivity of labor grows, even if the employed labor-power should remain constant. But the development of social productivity carries with it a still greater increase of the produced use-values, of which the means of production form a part. And the additional labor, whose appropriation reconverts this additional value into capital, does not depend on the value, but on the mass of these means of production (including the means of subsistence), because the laborer in the productive process is not operating with the exchange-value, but with

the use-value of the means of production. Accumulation itself, however, and the concentration of capital that goes with it, is a material means of increasing the productive power. Now, this growth of the means of production includes the increase of the laboring population, the creation of a laboring population which corresponds to the surplus-capital or even exceeds its general requirements, leading to an overpopulation of working people. A momentary excess of the surplus-capital over the laboring population controlled by it would have a twofold effect. It would, on the one hand, mitigate the conditions, which decimate the offspring of the laboring class and would facilitate marriages among them, by raising wages. This would tend to increase the laboring population. On the other hand, it would employ the methods by which relative surplus-value is created (introduction and improvement of machinery) and thereby create still more rapidly an artificial relative overpopulation, which in its turn would be a hothouse for the actual propagation of its numbers, since under capitalist production poverty propagates its kind. The nature of the capitalist process of accumulation, which process is but an element in the capitalist process of production, implies as a matter of course that the increased mass of means of production, which is to be converted into capital, must always find on hand a corresponding increase, or even an excess, of laboring people for exploitation. The progress of the process of production and accumulation must, therefore, be accompanied by a growth of the mass of available and appropriated surplus-labor, and consequently by a growth of the absolute mass of

profit appropriated by the social capital. But the same laws of production and accumulation increase the volume and value of the constant capital in a more rapid progression than those of the variable capital invested in living labor. The same laws, then, produce for the social capital an increase in the absolute mass of profit and a falling rate of profit.
III.XIII.18

We leave out of consideration the fact that the same amount of values represents a progressively increasing mass of use-values and enjoyments to the extent that the capitalist process of production carries with it a development of the productive power of social labor, a multiplication of the lines of production, and an increase of products.
III.XIII.19

The development of capitalist production and accumulation lifts the processes of labor to a higher scale and gives them greater dimensions, which imply larger investments of capital for each individual establishment. A growing concentration of capitals (accompanied by a growing number of capitalists, though not to the same extent) is therefore one of the material requirements of capitalist production as well as one of the results produced by it. Hand in hand with it, and mutually interacting, goes a progressive expropriation of the more or less direct producers. It is, then, a

matter of course for the capitalists that they should control increasing armies of laborers (no matter how much the variable capital may relatively decrease in comparison to the constant capital), and that the mass of surplus-value, and of profit, appropriated by them, should grow simultaneously with the fall of the rate of profit, and in spite of it. The same causes which concentrate masses of laborers under the control of capitalists, are precisely those which also swell the mass of fixed capital, auxiliary and raw materials in a growing proportion as compared to the mass of the employed living labor.
III.XIII.20

It requires but a passing notice at this point, that, given a certain laboring population, the mass of surplus-value, and therefore the absolute mass of profit, must grow if the rate of surplus-value increases by a prolongation or intensification of the working day, or by a lowering of the value of wages through a development of the productive power of labor, and must do so in spite of the relative decrease of the variable capital compared to the constant.
III.XIII.21

The same development of the productive power of social labor, the same laws, which express themselves in a relative fall of the variable as compared to the total capital and in a correspondingly hastened accumulation, while this accumulation in its turn becomes the starting point of a further development of the productive power and of a

further relative fall of the variable capital, this same development manifests itself, aside from temporary fluctuations, by a growing increase of the employed total labor-power, a growing increase of the absolute mass of surplus-value, and consequently of profits.
III.XIII.22

Now, in what form must this two-faced law with the same causes for a decrease of the rate of profits and a simultaneous increase of the absolute mass of profits show itself? A law based on the fact that under certain conditions the appropriated mass of surplus-labor, and consequently of surplus-value, increases, and that, so far as the total capital is concerned, or the individual capital as an aliquot part of the total capital, profit and surplus-value are identical magnitudes?
III.XIII.23

Take that aliquot part of capital which is the basis of our calculation of the rate of profit, for instance 100. These 100 illustrate the average composition of the total capital, say 80 c + 20 v. We have seen in the second part of this volume, that the average rate of profit is determined, not by the particular composition of individual capital, but by the average composition of social capital. If the variable capital decreases as compared to the constant, or to the total capital, then the rate of profit, or the relative magnitude of surplus-value calculated on the total capital, falls even though the intensity of exploitation were to remain the same, or even to increase. But it is not this

relative magnitude alone which falls. The magnitude of the surplus-value or profit absorbed by the total capital of 100 also falls absolutely. At a rate of surplus-value of 100%, a capital of 60 + 40 produces a mass of surplus-value and profit amounting to 40; a capital of 70 c + 30 v a mass of profit of 30; a capital of 80 c + 20 v produces only 20 of profit. This fall refers to the mass of surplus-value and thus of profit, and is due to the fact that the total capital of 100, with the same intensity of labor exploitation, employs less living labor, sets in motion less labor-power, and therefore produces less surplus-value. Taking any aliquot part of the social capital, this is, of capital of average composition, as a standard by which to measure surplus-value‘and this is done in all calculations of profit‘a relative fall of surplus-value is identical with its absolute fall. The rate of profit sinks in the above cases from 40% to 30% and 20%, because the mass of surplus-value, and of profit, produced by the same capital falls absolutely from 40 to 30 and 20. Since the magnitude of the value of capital, by which the surplus-value is measured, is given as 100, a fall in the proportion of surplus-value to this given magnitude can be only another expression for the fact that surplus-value and profit decrease absolutely. This is, of course, a tautology. But we have demonstrated that the nature of the capitalist process of production brings about this decrease.

III.XIII.24

On the other hand, the same causes which bring about an absolute decrease of surplus-value and profit on a given capital, and consequently in the percentage of the rate of profit, produce an increase of the absolute mass of surplus-value and profit appropriated by the total capital (that is, by the capitalists as a whole). How can this be explained, and what is the only way in which this can be explained, or what are the conditions on which this apparent contradiction is based?
III.XIII.25

While any aliquot part, any 100 of the social capital, any 100 of average social composition, is a given magnitude, for which a fall in the rate of profit implies a fall in the absolute magnitude of profit, just because the capital which serves as a standard of measurement is a constant magnitude, the magnitude of the social capital, on the other hand, as well as that of the capital in the hands of individual capitalists, is variable, and in keeping with our assumptions it must vary inversely to the decrease of its variable portion.
III.XIII.26

In our former illustration, when the percentage of composition was 60 c + 40 v, the corresponding surplus-value and profit was 40, and the rate of profit 40%. Take it that the total capital in this stage of composition was one million. In that case the total surplus-value, and total profit, amounted to 400,000. Now, if the composition changes

later to 80 c + 20 v, while the degree of labor exploitation remains the same, then the surplus-value and profit for each 100 is 20. But as we have demonstrated that the absolute mass of surplus-value and profit increases in spite of the fall of the rate of profit, in spite of the decrease in the production of surplus-value by a capital of 100, that it grows, say, from 400,000 to 440,000, there is no other way in which this could be brought about than by a growth of the total capital to 2,200,000 to the extent that this new composition developed. The mass of the total capital set in motion has risen by 220%, while the rate of profit has fallen by 50%. If the total capital had only been doubled, it could have produced no more surplus-value and profit with a rate of profit of 20% than the old capital of 1,000,000 at a rate of 40%. If it had grown to less than twice its old size, it would have produced less surplus-value or profit than the old capital of 1,000,000 which, with its former composition, would have had to grow from 1,000,000 to no more than 1,100,000, in order to raise its surplus-value from 400,000 to 440,000.

III.XIII.27

We meet here once more the previously analysed law, that the relative decrease of the variable capital, or the development of the productive power of labor, requires an increasing mass of total capital for the purpose of setting in motion the same quantity of labor-power and absorbing the same quantity of surplus-labor. Consequently the possibility of a relative surplus of laboring people develops to the

extent that capitalist production advances, not because the productive power of social labor decreases, but because it increases. Relative overpopulation does not arise out of an absolute disproportion between labor and means of subsistence, or of means for the production of these means of existence, but out of a disproportion due to the capitalist exploitation of labor, a disproportion between the growing increase of capital and its relatively decreasing demand for an increase of population.
III.XIII.28

A fall in the rate of profit by 50% means its fall by one-half. If the mass of profit is to remain the same, the capital must be doubled. In order that the mass of profit made at a declining rate of profit may remain the same as before, the multiplier indicating the growth of the total capital must be equal to the divisor indicating the fall of the rate of profit. If the rate of profit falls from 40 to 20, the total capital must rise at the rate of 20 to 40, in order that the result may remain the same. If the rate of profit had fallen from 40 to 8, the capital would have to increase at the rate of 8 to 40, or five times its value. A capital of 1,000,000 at a rate of 40% produces 400,000, and a capital of 5,000,000 at a rate of 8% likewise produces 400,000. This applies, so long as the result is to remain the same. But if the result is to be higher, then the capital must grow at a faster rate than the rate of profit falls. In other words, in order that the variable portion of the total capital may not only remain the same, but may also

increase absolutely, although its percentage in the total capital falls, the total capital must grow at a higher rate than the percentage of the variable capital falls. It must grow at such a rate that it requires in its new composition not merely the same old variable capital, but more than it for the purchase of labor-power. If the variable portion of a capital of 100 falls from 40 to 20, the total capital must rise higher than 200, in order to be able to employ a larger variable capital than 40.
III.XIII.29

Even if the mass of the exploited laboring population were to remain constant, and only the length and intensity of the working day to increase, the mass of the invested capital would have to increase, since it must rise for the mere purpose of employing the same mass of labor under the old conditions of exploitation as soon as the composition of capital varies.
III.XIII.30

In short, the same development of the social productivity of labor expresses itself in the course of capitalist production on the one hand in a tendency to a progressive fall of the rate of profit, and on the other hand in a progressive increase of the absolute mass of the appropriated surplus-value, or profit; so that on the whole a relative decrease of variable capital and profit is accompanied by an absolute increase of both. This twofold effect, as we have seen, can express

itself only in a growth of the total capital at a ratio more rapid than that expressed by the fall in the rate of profit. In order that an absolutely increased variable capital may be employed in a capital of higher composition, that is, a capital in which the constant capital has relatively increased still more than the variable, the total capital must one only grow in proportion to its higher composition, but even still more rapidly. It follows, then, that an ever larger quantity of capital is required in order to employ the same, and still more an increased amount of labor-power, to the extent that the capitalist mode of production develops. The increasing productivity of labor thus creates necessarily and permanently an apparent overpopulation of laboring people. If the variable capital forms only one-sixth of the total capital instead of one-half, as before, then the total capital must be trebled in order to employ the same amount of labor-power. And if the labor-power to be employed is doubled, then the total capital must be multiplied by six.
III.XIII.31

Political economy has so far been unable to explain the law of the falling tendency of the rate of profit. So it pointed as a consolation to the increasing mass of profit, the increase in the absolute magnitude of profit for the individual capitalist as well as for the social capital, but even this consolation was based on mere commonplaces and probabilities.
III.XIII.32

It is simply a tautology to say that the mass of profit is determined by two factors, namely first the rate profit, and secondly by the mass of capital invested at this rate. It is therefore but a corollary of this tautology to say that there is a possibility for the increase of the mass of profit even though the rate of profit may fall at the same time. This does not help us to get one step farther, since there is also a possibility that the capital may increase without resulting in an increase of the mass of profit, and that it may even increase while the mass of profit is already falling. For 100 at 25% make 25, while 400 at 5% make only 20.*35 But if the same causes, which bring about a fall in the rate of profit, promote the accumulation, that is, the formation of additional capital, and if each additional capital employs additional labor and produces additional surplus-value; when, on the other hand, the mere fall in the rate of profit implies the fact that the constant capital, and with it the total old capital, have increased, then this process ceases to be mysterious. We shall see later, to what falsifications of calculations some people have recourse in order to deny the possibility of an increase in the mass of profits while the rate of profits is simultaneously decreasing.
III.XIII.33

We have shown that the same causes, which bring about a tendency of the average rate of profits to fall, necessitate also an accelerated accumulation of capital and consequently an increase in the absolute

magnitude, or total mass, of the surplus-labor (surplus-value, profit) appropriated by it. Just as everything is reversed in competition, and thus in the consciousness of its agents, so is also this law, this internal and necessary connection between two apparent contradictions. It is evident, within the proportions indicated above, that a capitalist disposing of a large capital will receive a larger mass of profits than a small capitalist making apparently high profits. A superficial observation of competition shows furthermore that under certain circumstances, when the greater capitalist wishes to make more room for himself on the market by pushing aside the smaller ones, as happens in times of commercial crises, he makes a practical use of this, that is, he lowers his rate of profit intentionally in order to crowd the smaller ones off the field. Particularly merchant's capital, as we shall show at length later on, shows symptoms, which seem to attribute the fall in profits to an expansion of the business, and thus of capital. We shall later on give a scientific expression for this false conception. Similar superficial observations result from the comparison of rates of profit made in some particular lines of business, according to whether they are subject to free competition or to monopoly. The utterly shallow conception existing in the heads of the agents of competition is found in our Roscher, namely the idea that a reduction of the rate of profits is "more prudent and humane." The fall in the rate of profit is in this case attributed to an increase of capital, it appears as a consequence of this increase, and of the resultant calculation of the capitalist that the mass of profits to be pocketed by

him will be greater at a smaller rate of profits. This entire conception (with the exception of that of Adam Smith, which we shall mention later) rests on the utter misapprehension of what the average rate of profit represents and on the crude idea that prices are indeed determined by adding a more or less arbitrary amount of profit to the actual value of the commodities. Crude as these ideas are, they arise necessarily out of the inverted aspect which the immanent laws of capitalist production represent under competition.
III.XIII.34

The law that the fall in the rate of profit due to the development of the productive powers is accompanied by an increase in the mass of profit expresses itself furthermore in the fact that a fall in the price of commodities produced by capital is accompanied by a relative increase of the masses of profit contained in them and realised by their sale.
III.XIII.35

Since the development of the productive powers and the higher composition of capital corresponding to it set in motion an ever increasing quantity of means of production with an ever decreasing quantity of labor, every aliquot part of the total product, every single commodity, or every particular quantity of commodities in the total mass of products absorbs less living labor, and also contains less materialised labor, both as to the wear and tear of fixed capital and to the raw and auxiliary materials consumed. Every single commodity,

then, contains a smaller amount of labor materialised in means of production and of labor newly added during production. Hence the price of the individual commodity falls. The mass of profits contained in the individual commodities may nevertheless increase, if the rate of the absolute or relative surplus-value grows. The commodity then contains less newly added labor, but its unpaid portion grows over its paid portion. However, this is the case only within certain limits. In the course of the development of production, with the enormously growing absolute decrease of the amount of living labor newly embodied in the individual commodities, the mass of unpaid labor contained in them will likewise decrease absolutely, however much it may have grown as compared to their paid portion. The mass of profit on each individual commodity will decrease considerably with the development of the productive power of labor, in spite of the increase of the rate of surplus-value. And this reduction, the same as the fall in the rate of profits, is only delayed by the cheapening of the elements of constant capital and the other circumstances mentioned in the first part of this volume, which increase the rate of profit at a stable, or even falling, rate of surplus-value.
III.XIII.36

To say that the price of the individual commodities falls, which together make up the total product of the capital, is simply to say that a certain quantity of labor is realised in a larger quantity of commodities, so that each individual commodity contains less labor

than before. This is the case even if the price of one of the parts of constant capital, such as raw material, etc., should rise. With the exception of a few cases (for instance, if the productive power of labor cheapens all the elements of constant and variable capital uniformly) the rate of profit will fall in spite of the increased rate of surplus-value, 1), because even a larger unpaid portion of the smaller total amount of newly added labor is smaller than a smaller aliquot portion of unpaid labor was in the former large amount of total labor, and 2), because the higher composition of the capital is expressed through the individual commodity by the fact that that portion of its value, in which newly added labor is materialised, decreases as compared to that portion of its value, which represents raw material, auxiliary material, and wear and tear of fixed capital. This change in the proportions of the various component parts of the price of the individual commodities, the decrease of that portion of their price, in which newly added labor is materialised, and the increase of that portion, in which formerly materialised labor is represented, is that form which expresses through the price of the individual commodities the decrease of the variable capital as compared to the constant capital. To the extent that this decrease is absolute for a certain amount of capital, for instance 100, it is also absolute for every individual commodity as an aliquot part of the reproduced capital. However, the rate of profit, if calculated merely on the elements of the price of the individual commodity, would be different from what it actually is. The reason for this is as follows:

[The rate of profit is calculated on the total capital invested, but only for a definite time, in fact, for one year. The rate of profit is the proportion of the surplus-value, or profit, made and realised on the total capital and calculated in percentages. It is, therefore, not necessarily equal to a rate of profit, whose calculation was not based on one year, but on the period of turn-over of the invested capital. These two things do not coincide, unless the capital is turned over exactly in one year.

On the other hand, the profit made in the course of one year is merely the sum of the profits on the commodities produced and sold during the same year. Now, if we calculate the profit on the cost-price of the commodities, we obtain a rate of profit = p/k, in which p stands for the profit realised during one year, and k for the sum of the cost-prices of the commodities produced and sold during that year. It is evident that this rate of profit p/k will not coincide with the actual rate of profit p/c, or mass of profit divided by the total capital, unless k = C, that is, unless the capital is turned over in exactly one year.

Let us take three different conditions of some industrial capital.

I.'A capital of 8,000 p.st. produces and sells annually 5,000 pieces of commodities, at 30 sh. per piece, making an annual turn-over of

7,500 p.st. It makes a profit of 10 sh. on each piece, or 2,500 p.st. per year. Every piece, then, contains 20 sh. of capital advance, and 10 sh. of profit, so that the rate of profit per piece if 10/20 = 50%. The turned-over sum of 7,500 p.st. contains 5,000 p.st. of advanced capital and 2,500 p.st. of profits. Rate of profit for one turn-over, p/k, likewise 50%. But the rate of profit calculated on the total capital is the rate of profit p/c = 2500/8000 = 31¼%.

II.‘Let the capital increase to 10,000 p.st. Owing to an increased productivity of labor, let it be enabled to produce annually 10,000 pieces of commodities at a cost-price of 20 sh. per piece. Let these commodities be sold at a profit of 4 sh., in other words, at 24 sh. per piece. In that case the price of the annual product is 12,000 p.st., of which 10,000 p.st. is advanced capital and 2,000 p.st. profits. The rate of profit p/k is 4/20 per piece and 2000/10,000 for the annual turn-over, or in both cases = 20%. And since the total capital is equal to the sum of the cost-prices, namely 10,000 p.st., it follows that p/c, the actual rate of profit, is in this case also 20%.

III.‘Let the capital increase to 15,000 p.st., owing to a further growth of the productive power of labor, and let it produce annually 30,000 pieces of commodities at a cost-price of 13 sh. per piece, each piece being sold at a profit of 2 sh., or at 15 sh. per piece. The annual turn-over amounts in that case to 30,00 × 15 sh., = 22,500 p.st., of which 19,500 are advanced capital and 3,000 p.st. profits.

The rate of profit p/k is then 2/13 = 3000/19,500 = 15 5/13%. But the actual rate of profit p/c = 3000/15,000 = 20%.

We see, then, that only in case II, where the turned-over capital-value is equal to the total capital, is the rate of profit per piece, or per total amount turn-over, the same as the rate of profit calculated on the total capital. In case I, where the amount of the turn-over is smaller than the total capital, the rate of profit calculated on the cost-price of the commodities is higher. In case III, where the total capital is smaller than the amount of the turn-over, the rate of profit calculated on the cost-price of commodities is smaller than the actual rate calculated on the total capital. This is a general rule.

In commercial practice the turn-over is generally calculated inaccurately. It is assumed that the capital has been turned over once, as soon as the sum of the realised commodity-prices equals the sum of the invested total capital. But the capital can complete one whole turn-over only in the case that the sum of the cost-prices of the realised commodities equals the sum of the total capital.‘F. E.]

III.XIII.37

This demonstrates once more how important it is under the capitalist mode of production that the individual commodities or the commodity-product of a certain period should not be considered as isolated by

themselves, as mere commodities, but as products of advanced capital and in their relation to the total capital, which produces them.
III.XIII.38

Although the rate of profit must be calculated by measuring the mass of the produced and realised surplus-value by the consumed portion of capital reappearing in the commodities as well as by the sum of this portion plus that portion of capital which, though not consumed, is employed and continues to serve in production, the mass of profit cannot be equal to anything but the mass of profit, or surplus-value, contained in the commodities themselves and to be realised by their sale.
III.XIII.39

If the productivity of industry increases, the prices of the individual commodities fall. There is less paid and unpaid labor contained in them. Let the same labor produce, say, thrice, its former product. Then the individual product requires two-thirds less labor. And since the profit can constitute but a portion of the amount of labor congealed in the individual commodities, the mass of profit in the individual commodities must decrease. And this must hold good, within certain limits, even if the rate of surplus-value should rise. In any case, the mass of profits on the total product does not fall below the original mass of profits so long as the capital employs the same number of laborers at the same degree of exploitation. (This may also

take place, if fewer laborers are employed at a higher rate of exploitation.) For to the same extent that the mass of profit on the individual product decreases does the number of products increase. The mass of profits remains the same, only it is distributed differently over the total amount of commodities. Nor does this alter the division of the amount of value created by newly added labor between the laborers and capitalists. The mass of profit cannot increase, so long as same amount of labor is employed, unless the unpaid surplus-labor increases, or, supposing the intensity of exploitation to remain the same, unless the number of laborers grows. Or, both of these causes may, of course, combine to produce this result. In all these cases, which, however, according to our assumption, presuppose an increase of the constant capital as compared to the variable and an increase in the magnitude of the total capital, the individual commodity contains a smaller mass of profit and the rate of profit falls even if it is calculated on the individual commodity. A given quantity of additional labor is materialised in a larger quantity of commodities. The price of the individual commodities falls. Abstractly speaking, the rate of profit may remain the same, even though the price of the individual commodity may fall as a result of an increase in the productivity of labor and a simultaneous increase in the number of these cheaper commodities, for instance, if the increase in the productivity of labor extended its effects uniformly and simultaneously to all the elements of the commodities, so that the total price of the commodities would fall in the same proportion in which the productivity of labor would

increase, while on the other hand the mutual relations of the different elements of the price of commodities would remain the same. The rate of profit might even rise, if a rise in the rate of surplus-value were accompanied by a considerable reduction in the value of the elements of constant, and particularly of fixed, capital. But in reality, as we have seen, the rate of profit will fall in the long run. In any case, a fall in the price of any individual commodity does not by itself give a clue to the rate of profit. Everything depends on the magnitude of the total capital invested in its production. For instance, if the price of one yard of fabric falls from 3 sh. to 1 2/3 sh.; if we know that it contained before this reduction in price 1 2/3 sh. worth of constant capital, yarn, etc., 2/3 sh. wages, and 1/3 sh. profit, while it contains after this reduction 1 sh. of constant capital, 1/3 sh. of wages, and 1/3 sh. of profit, we cannot tell whether the rate of profit has remained the same or not. This depends on the question, whether the advanced total capital has increased, and how much, and how many yards of fabric more it produces in a given time.
III.XIII.40

This phenomenon arising from the nature of the capitalist mode of production, namely, that an increase in the productivity of labor implies a fall in the price of the individual commodity, or of a certain mass of commodities, an increase in the number of commodities, a reduction of the mass of profit in the individual commodity and of the rate of profit on the aggregate of commodities, an increase of the

mass of profit in the total quantity of commodities, this phenomenon shows itself on the surface only in a reduction of the mass of profit in the individual commodities, in a fall of their prices, in an increase of the mass of profits in the augmented number of commodities as a whole, which have been produced by the total capital of society or by that of the individual capitalist. It is then imagined that the capitalist adds less profits to the price of the individual commodities on his own free volition and makes up for it by the returns on a greater number of commodities produced by him. This conception rests upon the idea of profit upon alienation, which in its turn is deduced from the ideas of merchant's capital.
III.XIII.41

We have seen previously, in parts four and seven of Book I, that the growth in the mass of commodities resulting from the productivity of labor and the consequent cheapening of the commodities as such (unless these commodities become determining elements in the price of labor-power) do not affect the proportion between paid and unpaid labor in the individual commodities, in spite of the fall in price.
III.XIII.42

Since everything appears inverted under competition, the individual capitalist may imagine: 1) That he is reducing his profit on the individual commodity by cutting its price, but still making a greater profit on account of the larger quantity of commodities which he is

selling; 2) that he is fixing the price of the individual commodities and determining the price of the total product by multiplication, while the original process is really one of division (see Book I, chapter XII) and the multiplication is correct only in a secondary way, being based on that division. The vulgar economist does practically no more than to translate the queer concepts of the capitalists, who are in the thralls of competition, into a more theoretical and generalising language and to attempt a vindication of the correctness of those conceptions.
III.XIII.43

Practically, a fall in the prices of commodities and a rise in the mass of profits contained in the augmented mass of these cheapened commodities is but another expression for the law of the falling rate of profit with a simultaneous increase in the mass of profits.
III.XIII.44

The analysis of the extent to which a falling rate of profit may coincide with rising prices does not belong in this chapter any more than that of the point previously discussed in volume I, chapter XII, concerning relative surplus-value. A capitalist working with improved methods of production that have not yet become general sells below the market-price, but above his individual price of production. In this way his rate of profit rises until competition levels it down. During this leveling period the second requisite puts in its appearance, namely the expansion of the invested capital. According to the degree of this

expansion the capitalist will be enabled to employ a part of his former laborers under the new conditions, and eventually all of them or more, in other words, he will be enabled to produce the same or a greater mass of profits.

Notes for this chapter

35.
"We should also expect that, however the rate of the profits of stock might diminish in consequence of the accumulation of capital on the land and the rise of wages, yet the aggregate amount of profits would increase. Thus, supposing that, with repeated accumulations of 100,000 p.st., the rate of profits should fall from 20 to 19, to 18, to 17%, a constantly diminishing rate; we should expect that the whole amount of profits received by those successive owners of capital would be always progressive; that it would be greater when the capital was 200,000 p.st., than when 100,000 p.st.; still greater when 300,000 p.st,; and so on, increasing, though at a diminishing rate, with every increase of capital. This progression, however, is only true for a certain time; thus 19% on 200,000 p.st. is more than 20 on 100,000 p.st.; again 18% on 300,000 p.st, is more than 19% on 200,000 p.st.; but after capital has accumulated to a large amount, and profits have fallen, the further accumulation diminishes the aggregate of profits. Thus, suppose the accumulation should be 1,000,000 p.st., and the profits 7%, the whole amount of profits will

be 70,000 p.st.; now if an addition of 100,000 p.st. capital be made to the million, and profits should fall to 6%, 66,000 p.st. or a diminution of 4,000 p.st. will be received by the owners of the stock, although the whole amount of stock will be increased from 1,000,000 p.st. to 1,100,000 p.st,"'Ricardo, Political Economy, chapter VII (in Works, McCulloch Edition, 1852, page 68).'The fact is, that the assumption has here been made that the capital increases from 1,000,000 to 1,100,000, that is, by 10%, while the rate of profit falls from 7 to 6%, or 14 2/7%. Hence those tears!

Part III,

Volume III Chapter XIV. COUNTERACTING CAUSES.

III.XIV.1

IF we consider the enormous development of the productive powers of labor, even comparing but the last 30 years with all former periods; if we consider in particular the enormous mass of fixed capital, aside from machinery in the strict meaning of the term, passing into the process of social production. as a whole, then the difficult, which has hitherto troubled the vulgar economists, namely that of finding an explanation for the falling rate of profit, gives way to its opposite, namely to the question; How is it that this fall is not greater and more rapid? There must be some counteracting influences at work,

which thwart and annul the effects of this general law, leaving to it merely the character of a tendency. For this reason we have referred to the fall of the average rate of profit as a tendency to fall.
III.XIV.2

The following are the general counterbalancing causes:

I. Raising the Intensity of Exploitation.

III.XIV.3

The rate at which labor is exploited, the appropriation of surplus-labor and surplus-value, is raised by a prolongation of the working day and an intensification of labor. These two points have been fully discussed in volume I as incidents to the production of absolute and relative surplus-value. There are many ways of intensifying labor, which imply an increase of the constant capital as compared to the variable, and consequently a fall in the rate of profit, for instance setting a laborer to watch a larger number of machines. In such cases‘and in the majority of manipulations serving to produce relative surplus-value‘the same causes, which bring about an increase in the rate of surplus-value, may also imply a fall in the mass of surplus-value, looking upon the matter from the point of view of the total quantities of invested capital. But there are other means of intensification, such as increasing the speed of machinery, which although consuming more raw material,

and, so far as the fixed capital is concerned, wearing out the machinery so much faster, nevertheless do not affect the relation of its value to the price of labor set in motion by it. It is particularly the prolongation of the working day, this invention of modern industry, which increases the mass of appropriated surplus-labor without essentially altering the proportion of the employed labor-power to the constant capital set in motion by it, and which tends to reduce this capital relatively, if anything. For the rest, we have already demonstrated‘what constitutes the real secret of the tendency of the rate of profit to fall‘that the manipulations made for the purpose of producing relative surplus-value amount on the whole to this: That on one side as much as possible of a certain quantity of labor is transformed into surplus-value, and that on the other hand as little labor as possible is employed in proportion to the invested capital, so that the same causes, which permit the raising of the intensity of exploitation, forbid the exploitation of the same quantity of labor by the same capital as before. These are the warring tendencies, which, while aiming at a raise in the rate of surplus-value, have at the same time a tendency to bring about a fall in the mass of surplus-value, and therefore of the rate of surplus-value produced by a certain capital. It is furthermore appropriate to mention at this point the extensive introduction of female and child labor, in so far as the whole family must produce a larger quantity of surplus-value for a certain capital than before, even in case the total amount of their wages should increase, which is by no means general.

III.XIV.4

Whatever tends to promote the production of relative surplus-value by mere improvements in methods, for instance in agriculture, without altering the magnitude of the invested capital, has the same effect. While the constant capital does not increase relatively to the variable in such cases, taking the variable capital as an index of the amount of labor-power employed, the mass of the product does increase in proportion to the labor-power employed. The same takes place, when the productive power of labor (whether its product passes into the consumption of the laborer or into the elements of constant capital) is freed from obstacles of circulation, of arbitrary or other restrictions which become obstacles in course of time, in short, of fetters of all kinds, without touching directly the proportion between the variable and the constant capital.

III.XIV.5

It might be asked, whether the causes checking the fall of the rate of profit, but always hastening it in the last analysis, include the temporary raise in surplus-value above the average level, which recur now in this, now in that line of production for the benefit of those individual capitalists, who make use of inventions, etc., before they are generally introduced. This question must be answered in the affirmative.

III.XIV.6

The mass of surplus-value produced by a capital of a certain magnitude is the product of two factors, namely of the rate of surplus-value multiplied by the number of laborers employed at this rate. Hence it depends on the number of laborers, when the rate of surplus-value is given, and on the rate of surplus-value, when the number of laborers is given. In short, it depends on the composite proportion of the absolute magnitudes of the variable capital and the rate of surplus-value. Now we have seen, that on an average the same causes, which raise the rate of relative surplus-value, lower the mass of the employed labor-power. It is evident, however, that there will be a more or less in this according to the definite proportion, in which the opposite movements exert themselves, and that the tendency to reduce the rate of profit will be particularly checked by a raise in the rate of absolute surplus-value due to a prolongation of the working day.
III.XIV.7

We saw in the case of the rate of profit, that a fall in the rate was generally accompanied by an increase in the mass of profit, on account of the increasing mass of the total capital employed. From the point of view of the total variable capital of society, the surplus-value produced by it is equal to the profit produced by it. Both the absolute mass and the absolute rate of surplus-value have thus increased. The one has increased, because the quantity of labor-power

employed by society has grown, the other, because the intensity of exploitation of this labor-power has increased. But in the case of a capital of a given magnitude, for instance 100, the rate of surplus-value may increase, while the mass may decrease on an average; for the rate is determined by the proportion, in which the variable capital produces value, while its mass is determined by the proportional part which the variable capital constitutes in the total capital.
III.XIV.8

The rise in the rate of surplus-value is a factor, which determines also the mass of surplus-value and thereby the rate of profit, for it takes place especially under conditions, in which, as we have seen, the constant capital is either not increased at all relatively to the variable capital, or not increased in proportion. This factor does not suspend the general law. But it causes that law to become more of a tendency, that is, a law whose absolute enforcement is checked, retarded, weakened, by counteracting influences. Since the same causes, which raise the rate of surplus-value (even a prolongation of the working time is a result of large scale industry), also tend to decrease the labor-power employed by a certain capital, it follows that these same causes also tend to reduce the rate of profit and to check the speed of this fall. If one laborer is compelled to perform as much labor as would be rationally performed by two, and if this is done under circumstances, in which this one laborer can replace three, then this one will produce as much surplus-labor as was formerly produced

by two, and to that extent the rate of surplus-value will have risen. But this one will not produce as much as formerly three, and to that extent the mass of surplus-value will have decreased. But this reduction in mass will be compensated, or limited, by the rise in the rate of surplus-value. If the entire population is employed at a higher rate of surplus-value, the mass of surplus-value will increase, although the population may remain the same. It will increase still more, if the population increases at the same time. And although this goes hand in hand with a relative reduction of the number of laborers employed in proportion to the magnitude of the total capital, yet this reduction is checked or moderated by the rise in the rate of surplus-value. III.XIV.9

Before leaving this point, we wish to emphasize once more that, with a capital of a certain magnitude, the rate of surplus-value may rise, while its mass is decreasing, and vice versa. The mass of surplus-value is equal to the rate multiplied by the number of laborers; however, this rate is never calculated on the total, but only on the variable capital, actually only for a day at a time. On the other hand, with a given magnitude of a certain capital, the rate of profit can never fall or rise, without a simultaneous fall or rise in the mass of surplus-value.

II. Depression of Wages Below their Value.

III.XIV.10

This is mentioned only empirically at this place, since it, like many other things, which might be enumerated here, has nothing to do with the general analysis of capital, but belongs in a presentation of competition, which is not given in this work. However, it is one of the most important causes checking the tendency of the rate of profit to fall.

III. Cheapening of the Elements of Constant Capital.

III.XIV.11

Everything that has been said in the first part of this volume about the causes, which raise the rate of profit while the rate of surplus-value remains the same, or independently of the rate of surplus-value, belongs here. This applies particularly to the fact that, from the point of view of the total capital, the value of the constant capital does not increase in the same proportion as its material volume. For instance, the quantity of cotton, which a single European spinning operator works up in a modern factory, has grown in a colossal degree compared to the quantity formerly worked up by a European operator with a spinning wheel. But the value of the worked-up cotton has not grown in proportion to its mass. The same holds good of machinery and other fixed capital. In short, the same development, which

increases the mass of the constant capital relatively over that of the variable, reduces the value of its elements as a result of the increased productivity of labor. In this way the value of the constant capital although continually increasing, is prevented from increasing at the same rate as its material volume, that is, the material volume of the means of production set in motion by the same amount of labor-power. In exceptional cases the mass of the elements of constant capital may even increase, while its value remains the same or even falls.

III.XIV.12

The foregoing bears upon the depreciation of existing capital (that is, of its material elements) which comes with the development of industry. This is another one of the causes which by their constant effects tend to check the fall of the rate of profit, although it may under certain circumstances reduce the mass of profit by reducing the mass of capital yielding a profit. This shows once more that the same causes, which bring about a tendency of the rate of profit to fall, also check the realisation of this tendency.

IV. Relative Overpopulation.

III.XIV.13

The production of a relative surplus-population is inseparable from the development of the productivity of labor expressed by a fall in the rate of profit, and the two go hand in hand. The relative overpopulation becomes so much more apparent in a certain country, the more the capitalist mode of production is developed in it. This, again, is on the one hand a reason, which explains why the imperfect subordination of labor to capital continues in many lines of production, and continues longer than seems at first glance compatible with the general stage of development. This is due to the cheapness and mass of the disposable or unemployed wage laborers, and to the greater resistance, which some lines of production, by their nature, oppose to a transformation of manufacture into machine production. On the other hand, new lines of production are opened up, especially for the production of luxuries, and these lines take for their basis this relative overpopulation set free in other lines of production by the increase of their constant capital. These new lines start out with living labor as their predominating element, and go by degrees through the same evolution as the other lines of production. In either case the variable capital constitutes a considerable proportion of the total capital and wages are below the average, so that both the rate and mass of surplus-value are exceptionally high. Since the average rate of profit is formed by leveling the rates of profit in the individual lines of production, the same cause, which brings about a falling tendency of the rate of profit, once more produces a counterbalance to this tendency and paralyses its effects more or less.

V. Foreign Trade.

III.XIV.14

To the extent that foreign trade cheapens partly the elements of constant capital, partly the necessities of life for which the variable capital is exchanged, it tends to raise the rate of profit by raising the rate of surplus-value and lowering the value of the constant capital. It exerts itself generally in this direction by permitting an expansion of the scale of production. But by this means it hastens on one hand the process of accumulation, on the other the reduction of the variable as compared to the constant capital, and thus a fall in the rate of profit. In the same way the expansion of foreign trade, which is the basis of the capitalist mode of production in its stages of infancy, has become its own product in the further progress of capitalist development through its innate necessities, through its need of an ever expanding market. Here we see once more the dual nature of these effects. (Ricardo entirely overlooked this side of foreign trade.)

III.XIV.15

Another question, which by its special nature is really beyond the scope of our analysis, is the following: Is the average rate of profit

raised by the higher rate of profit, which capital invested in foreign, and particularly in colonial trade, realises?
III.XIV.16

Capitals invested in foreign trade are in a position to yield a higher rate of profit, because, in the first place, they come in competition with commodities produced in other countries with lesser facilities of production, so that an advanced country is enabled to sell its goods above their value even when it sells them cheaper than the competing countries. To the extent that the labor of the advanced countries is here exploited as a labor of a higher specific weight, the rate of profit rises, because labor which has not been paid as being of a higher quality is sold as much. The same condition may obtain in the relations with a certain country, into which commodities are exported and from which commodities are imported. This country may offer more materialised labor in goods than it receives, and yet it may receive in return commodities cheaper than it could produce them. In the same way a manufacturer, who exploits a new invention before it has become general, undersells his competitors and yet sells his commodities above their individual values, that is to say, he exploits the specifically higher productive power of the labor employed by him as surplus-value. By this means he secures a surplus-profit. On the other hand, capitals invested in colonies, etc., may yield a higher rate of profit for the simple reason that the rate of profit is higher there on account of the backward development, and for the added reason,

that slaves, coolies, etc., permit a better exploitation of labor. We see no reason, why these higher rates of profit realised by capitals invested in certain lines and sent home by them should not enter as elements into the average rate of profit and tend to keep it up to that extent.*36 We see so much less reason for the contrary opinion, when it is assumed that such favored lines of investment are subject to the laws of free competition. What Ricardo has in mind as objections, is mainly this: With the higher prices realised in foreign trade, commodities are bought abroad and sent home. These commodities are sold on the home market, and this can constitute at best but a temporary advantage of the favored spheres of production over others. This aspect of the matter is changed, when we no longer look upon it from the point of view of money. The favored country recovers more labor in exchange for less labor, although this difference, this surplus, is pocketed by a certain class, as it is in any exchange between labor and capital. So far as the rate of profit is higher, because it is generally higher in the colonial country, it may go hand in hand with a low level of prices, if the natural conditions are favorable. It is true that a compensation takes place, but it is not a compensation on the old level, as Ricardo thinks.
III.XIV.17

However, this same foreign trade develops the capitalist mode of production in the home country. And this implies the relative decrease of the variable as compared to the constant capital, while it produces,

on the other hand, an overproduction for the foreign market, so that it has once more the opposite effect in its further course.
III.XIV.18

And so we have seen in a general way, that the same causes, which produce a falling tendency in the rate of profit, also call forth counter-effects, which check and partly paralyse this fall. This law is not suspended, but its effect is weakened. Otherwise it would not be the fall of the average rate of profit, which would be unintelligible, but rather the relative slowness of this fall. The law therefore shows itself only as a tendency, whose effects become clearly marked only under certain conditions and in the course of long periods.
III.XIV.19

Before passing on to something new, we will, for the sake of preventing misunderstanding, repeat two statements, which we have substantiated at different times.
III.XIV.20

1) The same process, which brings about a cheapening of commodities in the course of development of the capitalist mode of production, also causes a change in the organic composition of the social capital invested in the production of commodities, and thereby lowers the rate of profit. We must be careful, then, not to confound the reduction in the relative cost of an individual commodity, including

that portion of its cost which represents wear and tear of machinery, with the relative rise in the value of the constant as compared to the variable capital, although vice versa every reduction in the relative cost of the constant capital, whose material elements retain the same volume or increase in volume, tends to raise the rate of profit, in other words, tends to reduce the value of the constant capital to that extent as compared with the shrinking proportions of the employed variable capital.
III.XIV.21

2) The fact that the additional living labor contained in the individual commodities, which together make up the product of capital, stands in a decreasing proportion to the materials and instruments of labor consumed by them; the fact, that an ever decreasing quantity of additional living labor is materialised in them, because their production requires less labor to the extent that the productive power of society is developed,‘this fact does not touch the proportion, according to which the living labor contained in the commodities is divided into paid and unpaid labor. On the other hand, although the total quantity of additional living labor contained in them decreases, the unpaid portion increases over the paid portion, either by an absolute, or by a proportional reduction of the paid portion; for the same mode of production, which reduces the total quantity of the additional living labor in the commodities, is accompanied by a rise of the absolute and relative surplus-value. The falling tendency of the rate of profit is

accompanied by a rising tendency of the rate of surplus-value, that is, in the rate of exploitation. Nothing is more absurd, for this reason, than to explain a fall in the rate of profit by a rise in the rate of wages, although there may be exceptional cases where this may apply. Statistics do not become available for actual analyses of the rates of wages in different epochs and countries, until the conditions, which shape the rate of profit, are thoroughly understood. The rate of profit does not fall, because labor becomes less productive, but because it becomes more productive. Both phenomena, the rise in the rate of surplus-value and the fall in the rate of profit, are but specific forms through which the productivity of labor seeks a capitalistic expression,

VI. The Increase of Stock Capital.

III.XIV.22

The foregoing five points may be supplemented by the following, which, however, cannot be more fully detailed for the present. A portion of capital serves only as interest-bearing capital, and is so calculated, to the extent that capitalist production makes progress and hastens accumulation. This term interest-bearing capital is not applied here to capital loaned by a capitalist who is satisfied with interest on it, while the industrial capitalist borrowing it pockets the investor's profit. This has no bearing upon the level of the average rate of

profit, for this rate is concerned only with profit as composed of interest + profit of all sorts + ground rent, and the proportional division into these particular categories is immaterial for it. We speak here of interest-bearing capital in the sense that these capitals, although invested in large productive enterprises, yield only large or small amounts of interest, so-called dividends, after all costs have been paid. This is typical of railroads, for instance. These dividends do not help to level the average rate of profit, because they represent a lower than the average rate of profit. If they did help in this, then the average rate of profit would fall much lower. Theoretically such capitals may be included in the calculation, and in that case the result will be a lower rate of profit than that which actually seems to exist and determine the actions of the capitalists, since the constant capital is the largest as compared to the variable capital precisely in these enterprises.

Notes for this chapter

36.
Adam Smith was right in this respect, contrary to Ricardo, who said: "They contend the equality of profits will be brought about by the general rise of profits; and I am of opinion that the profits of the favoured trade will speedily submit to the general level. (Works, MacCulloch ed., p. 73.)

Part III,

Volume III Chapter XV UNRAVELING THE INTERNAL CONTRADICTIONS OF THE LAW.

I. General Remarks.

III.XV.1

WE have seen in the first part of this volume, that the rate of profit expresses the rate of surplus-value always lower than it actually is. We have now seen, that even a rising rate of surplus-value has a tendency to express itself in a falling rate of profit. The rate of profit would be equal to the rate of surplus-value only if c = O, that is, if the entire invested capital were paid out in wages. A falling rate of profit does not express a falling rate of surplus-value, unless the proportion of the value of the constant capital to the quantity of labor-power set in motion by it remains unchanged, or the amount of labor-power has increased relatively over the value of the constant capital.

III.XV.2

Ricardo, under pretense of analysing the rate of profit, actually analyses only the rate of surplus-value, and he does so on the

assumption that the working day is intensively and extensively a constant magnitude.
III.XV.3

A fall in the rate of profit and a hastening of accumulation are in so far only different expressions of the same process as both of them indicate the development of the productive power. Accumulation in its turn hastens the fall of the rate of profit, inasmuch as it implies the concentration of labor on a large scale and thereby a higher composition of capital. On the other hand, a fall in the rate of profit hastens the concentration of capital and its centralisation through the expropriation of the smaller capitalists, the expropriation of the last survivers of the direct producers who still have anything to give up. This accelerates on one hand the accumulation, so far as mass is concerned, although the rate of accumulation falls with the rate of profit.
III.XV.4

On the other hand, so far as the rate of self-expansion of the total capital, the rate of profit, is the incentive of capitalist production (just as this self-expansion of capital is its only purpose, its fall checks the formation of new independent capitals and thus seems to threaten the development of the process of capitalist production. It promotes overproduction, speculation, crises, surplus-capital along with surplus-population. Those economists who, like Ricardo, regard the capitalist

mode of production as absolute, feel nevertheless, that this mode of production creates its own limits, and therefore they attribute this limit, not to production, but to nature (in their theory of rent). But the main point in their horror over the falling rate of profit is the feeling, that capitalist production meets in the development of productive forces a barrier, which has nothing to do with the production of wealth as such; and this peculiar barrier testifies to the finiteness and the historical, merely transitory character of capitalist production. It demonstrates that this is not an absolute mode for the production of wealth, but rather comes in conflict with the further development of wealth at a certain stage.
III.XV.5

It is true that Ricardo and his school considered only the industrial profit, which includes interest. But the rate of ground-rent has likewise a tendency to fall, although its absolute mass increases, and it may also increase proportionately more than the industrial profit. (See Ed. West, who developed the law of ground-rent before Ricardo.) If we consider the total social capital C, and use p'' to indicate the industrial profit remaining after the deduction of interest and ground rent, i to indicate interest, and r to indicate ground-rent then $s/C=p/C=(p''+i+r)/C=p''/C+i/C+r/C$. We have seen that, while s, the total amount of surplus-value, is continually increasing in the course of capitalist development, nevertheless s/C is just as steadily declining, because C grows still more rapidly than s. Therefore it is no

contradiction, that p'', i, and r, should be steadily increasing, each by itself, while s/C=p/C as well as p''/C, i/C, and r/C, each by itself, should ever decline, or that p'' should increase relatively more than i, or r more than p'', or, perhaps, more than p'' and i. With a rise in the total surplus-value or profit s = p, but a simultaneous fall in the rate of profit s/C=p/C, the proportional magnitude of the parts p'', i, and r, which make up s = p, may change at will within the limits set by the total amount of s, without thereby affecting the magnitude of s or s/C.

III.XV.6

The mutual variation of p'', i and r is but a varying distribution of s among different classes. Consequently p''/C, i/C, and r/C, the rate of industrial profit, the rate of interest, and the rate of ground-rent to the total capital, may rise relatively to one another, while s/C, the average rate of profit, is falling. The only condition is that the sum of all three cannot exceed s/C. If the rate of profit falls from 50% to 25%, because the composition of a certain capital with a rate of surplus-value of 100% has changed from 50 c + 50 v to 75 c + 25 v, then a capital of 1,000 will yield a profit of 500 in the first case, and a capital of 4,000 will yield a profit of 1,000 in the second case. We see that s or p have doubled, while p' has fallen by one-half. And if that 50% was formerly divided into 20 profit, 10 interest, 20 rent, then p''/C = 20%, i/C = 10%, and r/C = 20%. If conditions remained the same after the change from 50% to 25%, then p'/C

would be 10%, i/C would be 5%, and r/C = 10%. If, however, p'/C should fall to 3% and i/C to 4%, then r/C would rise to 13%. The proportional magnitude of r would have risen as against p'' and i, but nevertheless p', the rate of profit, would have remained the same. Under both assumptions, the sum of p'', i, and r would have increased, because it would have been produced by a capital of four times the size of the former. By the way, Ricardo's assumption that the industrial profit (plus interest) originally pockets the entire profit, is historically and logically false. It is rather the progress of capitalist production which, 1), places the whole profit at first hand at the disposal of the industrial and commercial capitalists for further distribution, and, 2), reduces rent to the excess over the profit. On this capitalist basis, rent further increases, so far as it is a portion of profit (that is, of the surplus-value produced by the total capital), while the specific portion of the product, which the capitalist pockets, does not.
III.XV.7

The creation of surplus-value, assuming the necessary means of production, or sufficient accumulation of capital, to be existing, finds no other limit but the laboring population, when the rate of surplus-value, that is, the intensity of exploitation, is given; and no other limit but the intensity of exploitation, when the laboring population is given. And the capitalist process of production consists essentially of the production of surplus-value, materialised in the surplus-product, which

is that aliquot portion of the produced commodities, in which unpaid labor is materialised. It must never be forgotten, that the production of this surplus-value‘and the reconversion of a portion of it into capital, or accumulation, forms an indispensable part of this production of surplus-value‘is the immediate purpose and the compelling motive of capitalist production. It will not do to represent capitalist production as something which it is not, that is to say, as a production having for its immediate purpose the consumption of goods, or the production of means of enjoyment for capitalists. This would be overlooking the specific character of capitalist production, which reveals itself in its innermost essence.
III.XV.8

The creation of this surplus-value is the object of the direct process of production, and this process has no other limits but those mentioned above. As soon as the available quantity of surplus-value has been materialised in commodities, surplus-value has been produced. But this production of surplus-value is but the first act of the capitalist process of production, it merely terminates the act of direct production. Capital has absorbed so much unpaid labor. With the development of the process, which expresses itself through a falling tendency of the rate of profit, the mass of surplus-value thus produced is swelled to immense dimensions. Now comes the second act of the process. The entire mass of commodities, the total product, which contains a portion which is to reproduce the constant and

variable capital as well as a portion representing surplus-value, must be sold. If this is not done, or only partly accomplished, or only at prices which are below the prices of production, the laborer has been none the less exploited, but his exploitation does not realise as much for the capitalist. It may yield no surplus-value at all for him, or only realise a portion of the produced surplus-value, or it may even mean a partial or complete loss of his capital. The conditions of direct exploitation and those of the realisation of surplus-value are not identical. They are separated logically as well as by time and space. The first are only limited by the productive power of society, the last by the proportional relations of the various lines of production and by the consuming power of society. This last-named power is not determined either by the absolute productive power nor by the absolute consuming power, but by the consuming power based on antagonistic conditions of distribution, which reduces the consumption of the great mass of the population to a variable minimum within more or less narrow limits. The consuming power is furthermore restricted by the tendency to accumulate, the greed for an expansion of capital and a production of surplus-value on an enlarged scale. This is a law of capitalist production imposed by incessant revolutions in the methods of production themselves, the resulting depreciation of existing capital, the general competitive struggle and the necessity of improving the product and expanding the scale of production, for the sake of self-preservation and on penalty of failure. The market must, therefore, be continually extended, so that its interrelations and the

conditions regulating them assume more and more the form of a natural law independent of the producers and become ever more uncontrollable. This internal contradiction seeks to balance itself by an expansion of the outlying fields of production. But to the extent that the productive power develops, it finds itself at variance with the narrow basis on which the condition of consumption rest. On this self contradictory basis it is no contradiction at all that there should be an excess of capital simultaneously with an excess of population. For while a combination of these two would indeed increase the mass of the produced surplus-value, it would at the same time intensify the contradiction between the conditions under which this surplus-value is produced and those under which it is realised.
III.XV.9

If a certain rate of profit is given, the mass of profit depends on the magnitude of the advanced capital. Accumulation is then determined by that portion of this mass, which is reconverted into capital. This portion, in its turn, being equal to the profit minus the revenue consumed by the capitalists, will depend not merely on the value of this mass, but also on the cheapness of the commodities which the capitalist can buy with it, commodities which pass partly into his individual consumption, partly into his constant capital. (Wages are here assumed to be a given quantity.)
III.XV.10

The mass of capital which the laborer sets in motion, whose value he preserves by his labor and reproduces in his product, is quite different from the value which he adds to it. If the mass of the capital equals 1,000, and the added labor 100, then the reproduced capital equals 1,100. If the mass equals 100 and the added labor 20, then the reproduced capital equals 120. In the first case the rate of profit is 10%, in the second 20%. And yet more can be accumulated out of 100 than out of 20. And thus the river of capital rolls on (aside from its depreciation by an increase of the productive power), or its accumulation does, not in proportion to the level of the rate of profit, but in proportion to the impetus which it already has. A high rate of profit, so far as it is based on a high rate of surplus-value, is possible when the working day is very long, although labor may not be highly productive. This is possible, because the wants of the laborers are very insignificant, and therefore the average wages very low, although labor itself unproductive. The low level of wages will have for its counterpart a lack of energy among laborers. Capital then accumulates slowly, in spite of the high rate of profits. Population stagnates and the working time, which the product costs, is long, while the wages paid to the laborer are small.
III.XV.11

The rate of profit sinks, not because the laborer is less exploited, but, because less labor is employed in proportion to the employed capital in general.

If a falling rate of profit goes hand in hand with an increase in the mass of profits, as we have shown, then a larger portion of the annual product of labor is appropriated by the capitalist under the name of capital (as a substitute for consumed capital) and a relatively smaller portion under the name of profit. Hence the phantastic idea of the priest Chalmers, that the capitalists pocket so much more profits, the smaller the quantity of the annual product expended by them as capital. The state church then comes to their assistance in order to help them to consume the greater part of the surplus-product instead of capitalising it. The preacher confounds cause with effect. By the way, the mass of profits increases also at a small rate with the magnitude of the invested capital. However, this requires at the same time a concentration of capital, since the conditions of production then demand the employment of capital on a large scale. It likewise requires its centralisation, that is, a devouring of small capitalists by the great capitalists and decapitalisation of the former. It is but a second instance of separating the producers from their requirements of production, for these small capitalists still belong to the producers, since their own labor plays a role in this problem. Generally speaking, the labor of a capitalist stands in an inverse proportion to the size of his capital, that is, to his degree as a capitalist. This divorce of requirements of production here, and producers there, is inseparable from the nature of capital. It begins with the inauguration of primitive

accumulation. (Vol. I, chap. XXVI), becomes a permanent process in the accumulation and concentration of capital, and expresses itself finally as a centralisation of already existing capitals in a few hands and a decapitalisation of many (a change in the method of expropriation). This process would soon bring about the collapse of capitalist production, if it were not for counteracting tendencies, which continually have a decentralising effect by the side of the centripetal ones.

II. Conflict between the Expansion of Production and the Creation of Values.

III.XV.13

The development of the productive power of labor shows itself in two ways: First, in the magnitude of the already produced productive powers, in the volume of values and masses of requirements of production, under which new production is carried on, and in the absolute magnitude of the already accumulated productive capital: secondly, in the relative smallness of the capital invested in wages as compared to the total capital, that is, in the relatively small quantity of living labor required for the reproduction and self-expansion of a given capital as compared to mass production. It is at the same time conditioned on the concentration of capital.
III.XV.14

So far as the employed labor-power is concerned, the development of the productive powers shows itself once more in two ways: First, in the increase of surplus-labor, that is, the reduction of the necessary labor time required for the reproduction of labor-power; secondly, in the decrease of the quantity of labor-power (the number of laborers) employed in general for the purpose of setting in motion a given capital.
III.XV.15

Both movements do not only go hand in hand, but are mutually conditioned on one another. They are different phenomena, through which the same law expresses itself. However, they affect the rate of profit in opposite ways. The total mass of profits is equal to the total mass of surplus-values, the rate of profit = s/ C = (surplus-value)/ (advanced total capital). Now, surplus-value, as a total, is determined first by its rate, secondly by the mass of labor simultaneously employed at this rate, or what amounts to the same, by the magnitude of the variable capital. One of these factors, the rate of surplus-value, rises in one direction, the other factor, the number of laborers, falls in the opposite direction (relatively or absolutely). To the extent that the development of the productive power reduces the paid portion of the employed labor, it raises the surplus-value by raising its rate; but to the extent that it reduces the total mass of labor employed by a certain capital, it reduces the factor of numbers

with which the rate of surplus-value is multiplied in order to calculate its mass. Two laborers, each working 12 hours daily, cannot produce the same mass of surplus-value as 24 laborers each working only 2 hours, even if they could live on air and did not have to work for themselves at all. In this respect, then, the compensation of the reduction in the number of laborers by means of an intensification of exploitation has certain impassible limits. It may, for this reason, check the fall of the rate of profit, but cannot prevent it entirely.
III.XV.16

With the development of the capitalist mode of production, the rate of profit therefore falls, while its mass increases with the growing mass of the employed capital. Given the rate, the absolute increase in the mass of capital depends on its existing magnitude. But on the other hand, if this magnitude is given, the proportion of its growth, the rate of its increment, depends on the rate of profit. The increase in the productive power (which, we repeat, always goes hand in hand with a depreciation of the productive capital) cannot directly increase the value of the existing capital, unless it increases, by raising the rate of profit, that portion of the value of the annual product which is reconverted into capital. So far as the productive power is concerned (since it has no direct bearing upon the value of the existing capital), it can accomplish this only by raising the relative surplus-value, or reducing the value of the constant capital, so that those commodities which enter either into the reproduction of labor-power or into the

elements of constant capital are cheapened. Both of these things imply a depreciation of the existing capital, and both of them go hand in hand with a relative reduction of the variable as compared to the constant capital. Both things imply a fall in the rate of profit, and both of them check it. Furthermore, so far as an increased rate of profit causes a greater demand for labor, it tends to increase the working population and thus the material, whose exploitation gives to capital its real nature of capital.
III.XV.17

Indirectly, however, the development of the productive power of labor contributes to the increase of the value of the existing capital, by increasing the mass and variety of use-values, in which the same exchange value presents itself and which form the material substance, the objective elements, of capital, the material objects of which the constant capital is directly composed and the variable capital at least indirectly. With the same capital and the same labor more things are produced, which may be converted into capital, aside from their exchange value. Things which may serve for the absorption of additional labor, and consequently of additional surplus-labor, and which therefore may become additional capital. The amount of labor, which a certain capital may command, does not depend on its value, but on the mass of raw and auxiliary materials, of machinery and elements of fixed capital, of necessities of life, of which it is composed, whatever may be their value. As the mass of the employed

labor, and thus of surplus-labor, increases, so does the value of the reproduced capital and the surplus-value newly added to it grow.
III.XV.18

These two elements playing their role in the process of accumulation should not, however, be observed in their quiet existence side by side, as Ricardo does. They imply a contradiction, which expresses itself in antagonistic tendencies and phenomena. These antagonistic agencies oppose each other simultaneously.
III.XV.19

Together with the incentives for an actual increase of the laboring population, which originates in the augmentation of that portion of the total social product which serves as capital, there are the effects of other agencies, which create merely a relative over-population.
III.XV.20

Together with the fall of the rate of profit grows the mass of capitals, and hand in hand with it goes a depreciation of the existing capitals, which checks this fall and gives an accelerating push to the accumulation of capital-values.
III.XV.21

Together with the development of the productive power grows the higher composition of capital, the relative decrease of the variable as compared to the constant capital.
III.XV.22

These different influences make themselves felt, now more side by side in space, now more successively in time. Periodically the conflict of antagonistic agencies seeks vent in crises. The crises are always but momentary and forcible solutions of the existing contradictions, violent eruptions, which restore the disturbed equilibrium for a while.
III.XV.23

The contradiction, generally speaking, consists in this that the capitalist mode of production has a tendency to develop the productive forces absolutely, regardless of value and of the surplus-value contained in it and regardless of the social conditions under which capitalist production takes place; while it has on the other hand for its aim the preservation of the value of the existing capital and its self-expansion to the highest limit (that is, an ever accelerated growth of this value). Its specific character is directed at the existing value of capital as a means of increasing this value to the utmost. The methods by which it aims to accomplish this comprise a fall of the rate of profit, a depreciation of the existing capital, and a development of the productive forces of labor at the expense of the already created productive forces.

III.XV.24

The periodical depreciation of the existing capital, which is one of the immanent means of capitalist production by which the fall in the rate of profit is checked and the accumulation of capital-value through the formation of new capital promoted, disturbs the existing conditions, within which the process of circulation and reproduction of capital takes place, and is therefore accompanied by sudden stagnations and crises in the process of production.

III.XV.25

The relative decrease of variable capital as compared to the constant, which goes hand in hand with the development of the productive forces, gives an impulse to the growth of the laboring population, while it continually creates an artificial over-population. The accumulation of capital, so far as its value is concerned, is checked by the falling rate of profit, in order to hasten still more the accumulation of its use-value, and this, in its turn, adds new speed to the accumulation of its value.

III.XV.26

Capitalist production is continually engaged in the attempt to overcome these immanent barriers, but it overcomes them only by means which again place the same barriers in its way in a more formidable size.

III.XV.27

The real barrier of capitalist production is capital itself. It is the fact that capital and its self-expansion appear as the starting and closing point, as the motive and aim of production; that production is merely production for capital, and not vice versa, the means of production mere means for an ever expanding system of the life process for the benefit of the society of producers. The barriers, within which the preservation and self-expansion of the value of capital resting on the expropriation and pauperisation of the great mass of producers can alone move, these barriers come continually in collision with the methods of production, which capital must employ for its purposes, and which steer straight toward an unrestricted extension of production, toward production for its own self, toward an unconditional development of the productive forces of society. The means, this unconditional development of the productive forces of society, comes continually into conflict with the limited end, the self-expansion of the existing capital. Thus, while the capitalist mode of production is one of the historical means by which the material forces of production are developed and the world-market required for them created, it is at the same time in continual conflict with this historical task and the conditions of social production corresponding to it.

III. Surplus of Capital and Surplus of Population.

III.XV.28

With the fall of the rate of profit grows the lowest limit of capital required in the hands of the individual capitalist for the productive employment of labor, required both for the exploitation of labor and for bringing the consumed labor time within the limits of the labor time necessary for the production of the commodities, the limits of the average social labor time required for the production of the commodities. Simultaneously with it grows the concentration, because there comes a certain limit where large capital with a small rate of profit accumulates faster than small capital with a large rate of profit. This increasing concentration in its turn brings about a new fall in the rate of profit at a certain climax. The mass of the small divided capitals is thereby pushed into adventurous channels, speculation, fraudulent credit, fraudulent stocks, crises. The so-called plethora of capital refers always essentially to a plethora of that class of capital which finds no compensation in its mass for the fall in the rate of profit‘and this applies always to the newly formed sprouts of capital‘or to a plethora of capitals incapable of self-dependent action and placed at the disposal of the managers of large lines of industry in the form of credit. This plethora of capital proceeds from the same causes which call forth a relative over-population. It is therefore a phenomenon supplementing this last one, although they are found at opposite poles, unemployed capital on the one hand, and unemployed laboring population on the other.
III.XV.29

An overproduction of capital, not of individual commodities, signifies therefore simply an over-accumulation of capital‘although the overproduction of capital always includes the overproduction of commodities. In order to understand what this over-accumulation is (its detailed analysis follows later), it is but necessary to assume it to be absolute. When would an overproduction of capital be absolute? When would it be an overproduction which would not affect merely a few important lines of production, but which would be so absolute as to extend to every field of production?
III.XV.30

There would be an absolute overproduction of capital as soon as the additional capital for purposes of capitalist production would be equal to zero. The purpose of capitalist production is the self-expansion of capital, that is, the appropriation of surplus-labor, the production of surplus-value, of profit. As soon as capital would have grown to such a proportion compared with the laboring population, that neither the absolute labor time nor the relative surplus-labor time could be extended any further (this last named extension would be out of the question even in the mere case that the demand for labor would be very strong, so that there would be a tendency for wages to rise); as soon as a point is reached where the increased capital produces no larger, or even smaller, quantities of surplus-value than it did before its increase, there would be an absolute overproduction of capital.

That is to say, the increased capital C+ΔC would not produce any more profit, or even less profit, than capital C before its expansion by ΔC. In both cases there would be a strong and sudden fall in the average rate of profit, but it would be due to a change in the composition of capital which would not be caused by the development of the productive forces, but by a rise in the money-value of the variable capital (on account of the increased wages) and the corresponding reduction in the proportion of surplus-labor to necessary labor.
III.XV.31

In reality the matter would amount to this, that a portion of the capital would lie fallow completely or partially (because it would first have to crowd some of the active capital out before it could take part in the process of self-expansion), while the active portion would produce values at a lower rate of profit, owing to the pressure of the unemployed or but partly employed capital. Matters would not be altered in this respect, if a part of the additional capital were to take the place of some old capital crowding this into the position of additional capital. We should always have on one side the sum of old capitals, on the other that of the additional capitals. The fall in the rate of profit would then be accompanied by an absolute decrease in the mass of profits, since under the conditions assumed by us the mass of the employed labor-power could not be increased and the rate of surplus-value not raised, so that there could be no raising of

the mass of surplus-value. And the reduced mass of profits would have to be calculated on an increased total capital.‘But even assuming that the employed capital were to continue producing value at the old rate, the mass of profits remaining the same, this mass would still be calculated on an increased total capital, and this would likewise imply a fall in the rate of profits. If a total capital of 1,000 yielded a profit of 100, and after its increase to 1,500 still yielded 100, then 1,000 in the second case would yield only 66 2/3. The self-expansion of the old capital would have been reduced absolutely. A capital of 1,000 would not yield any more under the new circumstances than formerly a capital of 666 2/3.
III.XV.32

It is evident that this actual depreciation of the old capital could not take place without a struggle, that the additional capital ΔC could not assume the functions of capital without an effort. The rate of profit would not fall on account of competition due to the overproduction of capital. The competitive struggle would rather begin, because the fall of the rate of profit and the overproduction of capital are caused by the same conditions. The capitalists who are actively engaged with their old capitals would keep as much of the new additional capitals as would be in their hands in a fallow state, in order to prevent a depreciation of their original capital and a crowding of its space within the field of production. Or they would employ it for the purpose of loading, even at a momentary loss, the necessity of keeping additional

capital fallow upon the shoulders of new intruders and other competitors in general.
III.XV.33

That portion of ΔC which would be in new hands would seek to make room for itself at the expense of the old capital, and would accomplish this in part by forcing a portion of the old capital into a fallow state. The old capital would have to give up its place to the new and retire to the place of the completely or partially unemployed additional capital.
III.XV.34

Under all circumstances, a portion of the old capital would be compelled to lie fallow, to give up its capacity of capital and stop acting and producing value as such. The competitive struggle would decide what part would have to go into this fallow state. So long as everything goes well, competition effects a practical brotherhood of the capitalist class, as we have seen in the case of the average rate of profit, so that each shares in the common loot in proportion to the magnitude of his share of investment. But as soon as it is no longer a question of sharing profits, but of sharing losses, every one tries to reduce his own share to a minimum and load as much as possible upon the shoulders of some other competitor. However, the class must inevitably lose. How much the individual capitalist must bear of the loss, to what extent he must share in it at all, is decided by

power and craftiness, and competition then transforms itself into a fight of hostile brothers. The antagonism of the interests of the individual capitalists and those of the capitalist class as a whole then makes itself felt just as previously the identity of these interests impressed itself practically on competition.
III.XV.35

How would this conflict be settled and the "healthy" movement of capitalist production resumed under normal conditions? The mode of settlement is already indicated by the mere statement of the conflict whose settlement is under discussion. It implies the necessity of making unproductive, or even partially destroying, some capital, amounting either to the complete value of the additional capital C, or to a part of it. But a graphic presentation of this conflict shows that the loss is not equally distributed over all the individual capitals, but according to the fortunes of the competitive struggle, which assigns the loss in very different proportions and in various shapes by grace of previously captured advantages or positions, so that one capital is rendered unproductive, another destroyed, a third but relatively injured or but momentarily depreciated, etc.
III.XV.36

But under all circumstances the equilibrium is restored by making more or less capital unproductive or destroying it. This would affect to some extent the material substance of capital, that is, a part of the

means of production, fixed and circulating capital, would not perform any service as capital; a portion of the running establishments would then close down. Of course, time would corrode and depreciate all means of production (except land), but this particular stagnation would cause a far more serious destruction of means of production. However, the main effect in this case would be to suspend the functions of some means of production and prevent them for a shorter or longer time from serving as means of production. III.XV.37

The principal work of destruction would show its most dire effects in a slaughtering of the values of capitals. That portion of the value of capital which exists only in the form of claims on future shares of surplus-value of profit, which consists in fact of creditor's notes on production in its various forms, would be immediately depreciated by the reduction of the receipts on which it is calculated. One portion of the gold and silver money is rendered unproductive, cannot serve as capital. One portion of the commodities on the market can complete its process of circulation and reproduction only by means of an immense contraction of its prices, which means a depreciation of the capital represented by it. In the same way the elements of fixed capital are more or less depreciated. Then there is the added complication that the process of reproduction is based on definite assumptions as to prices, so that a general fall in prices checks and disturbs the process of reproduction. This interference and stagnation

paralyses the function of money as a medium of payment, which is conditioned on the development of capital and the resulting price relations. The chain of payments due at certain times is broken in a hundred places, and the disaster is intensified by the collapse of the credit-system. Thus violent and acute crises are brought about, sudden and forcible depreciations, an actual stagnation and collapse of the process of reproduction, and finally a real falling off in reproduction. III.XV.38

At the same time still other agencies would have been at work. The stagnation of production would have laid off a part of the laboring class and thereby placed the employed part in a condition, in which they would have to submit to a reduction of wages, even below the average. This operation has the same effect on capital as though the relative or absolute surplus-value had been increased at average wages. The time of prosperity would have promoted marriages among the laborers and reduced the decimation of the offspring. These circumstances, while implying a real increase in population, do not signify an increase in the actual working population, but they nevertheless affect the relations of the laborers to capital in the same way as though the number of the actually working laborers had increased. On the other hand, the fall in prices and the competitive struggle would have given to every capitalist an impulse to raise the individual value of his total product above its average value by means of new machines, new and improved working methods, new

combinations, which means, to increase the productive power of a certain quantity of labor, to lower the proportion of the variable to the constant capital, and thereby to release some laborers, in short, to create an artificial over-population. The depreciation of the elements of constant capital itself would be another factor tending to raise the rate of profit. The mass of the employed constant capital, compared to the variable, would have increased, but the value of this mass might have fallen. The present stagnation of production would have prepared an expansion of production later on, within capitalistic limits.
III.XV.39

And in this way the cycle would be run once more. One portion of the capital which had been depreciated by the stagnation of its function would recover its old value. For the rest, the same vicious circle would be described once more under expanded conditions of production, in an expanded market, and with increased productive forces.
III.XV.40

However, even under the extreme conditions assumed by us this absolute overproduction of capital would not be an absolute overproduction in the sense that it would be an absolute overproduction of means of production. It would be an overproduction of means of production only to the extent that they serve as capital,

so that the increased value of its increased mass would also imply a utilisation for the production of more value.
III.XV.41

Yet it would be an overproduction, because capital would be unable to exploit labor to a degree required by the "healthy, normal" development of the process of capitalist production, a degree of exploitation, which would increase at least the mass of profit to the extent that the mass of the employed capital would grow; which would therefore exclude any possibility of the rate of profit falling to the same extent that capital grows, or of the rate of profits falling even more rapidly than capital grows.
III.XV.42

Overproduction of capital never signifies anything else but overproduction of means of production‘means of production and necessities of life‘which may serve as capital, that is, serve for the exploitation of labor at a given degree of exploitation; for a fall in the intensity of exploitation below a certain point calls forth disturbances and stagnations in the process of capitalist production, crises, destruction of capital. It is no contradiction that this overproduction of capital is accompanied by a more or less considerable relative over-population. The same circumstances, which have increased the productive power of labor, augmented the mass of produced commodities, expanded the markets, accelerated the accumulation of

capital both as concerns its mass and its value, and lowered the rate of profit, these same circumstances have also created a relative over-population, and continue to create it all the time, an over-population of laborers who are not employed by the surplus-capital on account of the low degree of exploitation at which they might be employed, or at least on account of the low rate of profit, which they would yield with the given rate of exploitation.
III.XV.43

If capital is sent to foreign countries, it is not done, because there is absolutely no employment to be had for it at home. It is done, because it can be employed at a higher rate of profit in a foreign country. But such capital is absolute surplus-capital for the employed laboring population and for the home country in general. It exists as such together with the relative over-population, and this is an illustration of the way in which both of them exist side by side and are conditioned on one another.
III.XV.44

On the other hand, the fall in the rate of profit connected with accumulation necessarily creates a competitive struggle. The compensation of the fall in the rate of profit by a rise in the mass of profit applies only to the total social capital and to the great capitalists who are firmly installed. The new additional capital, which enters upon its functions, does not enjoy any such compensating

conditions. It must conquer them for itself, and so the fall in the rate of profit calls forth the competitive struggle among capitalists, not vice versa. This competitive struggle is indeed accompanied by a transient rise in wages and a resulting further fall of the rate of profit for a short time. The same thing is seen in the over-production of commodities, the overstocking of markets. Since the aim of capital is not to minister to certain wants, but to produce profits, and since it accomplishes this purpose by methods which adapt the mass of production to the scale of production, not vice versa, conflict must continually ensue between the limited conditions of consumption on a capitalist basis and a production which forever tends to exceed its immanent barriers. Moreover, capital consists of commodities, and therefore the overproduction of capital implies an overproduction of commodities. Hence we meet with the peculiar phenomenon that the same economists, who deny the overproduction of commodities, admit that of capital. If it is said that there is no general overproduction, but that a disproportion grows up between various lines of production, then this is tantamount to saying that within capitalist production the proportionality of the individual lines of production is brought about through a continual process of disproportionality, that is, the interrelations of production as a whole enforce themselves as a blind law upon the agents of production instead of having brought the productive process under their common control as a law understood by the social mind. It amounts furthermore to demanding that countries, in which capitalist production is not yet developed, should

consume and produce at the same rate as that adapted to countries with capitalist production. If it is said that overproduction is only relative, then the statement is correct; but the entire mode of production is only a relative one, whose barriers are not absolute, but have absoluteness only in so far as it is capitalistic. Otherwise, how could there be a lack of demand for the very commodities which the mass of the people want, and how would it be possible that this demand must be sought in foreign countries, in foreign markets, in order that the laborers at home might receive in payment the average amount of necessities of life? This is possible only because in this specific capitalist interrelation the surplus-product assumes a form, in which its owner cannot offer it for consumption, unless it first reconverts itself into capital for him. Finally, if it is said that the capitalists would only have to exchange and consume those commodities among themselves, then the nature of the capitalist mode of production is forgotten, it is forgotten, that the question is merely one of expanding the value of the capital, not of consuming it. In short, all these objections to the obvious phenomena of overproduction (phenomena which do not pay any attention to these objections) amounts to this, that the barriers of capitalist production are not absolute barriers of production itself and therefore no barriers of this specific, capitalistic, production. But the contradiction of this capitalist mode of production consists precisely in its tendency to an absolute development of productive forces, a development, which comes

continually in conflict with the specific conditions of production in which capital moves and alone can move.
III.XV.45

It is not a fact that too many necessities of life are produced in proportion to the existing population. The reverse is true. Not enough is produced to satisfy the wants of the great mass decently and humanely.
III.XV.46

It is not a fact that too many means of production are produced to employ the able bodied portion of the population. The reverse is the case. In the first place, too large a portion of the population is produced consisting of people who are really not capable of working, who are dependent through force of circumstances on the exploitation of the labor of others, or compelled to perform certain kinds of labor which can be dignified with this name only under a miserable mode of production. In the second place, not enough means of production are produced to permit the employment of the entire able bodied population under the most productive conditions, so that their absolute labor time would be shortened by the mass and effectiveness of the constant capital employed during working hours.
III.XV.47

On the other hand, there is periodically a production of too many means of production and necessities of life to permit of their serving as means for the exploitation of the laborers at a certain rate of profit. Too many commodities are produced to permit of a realisation of the value and surplus-value contained in them under the conditions of distribution and consumption peculiar to capitalist production, that is, too many to permit of the continuation of this process without ever recurring explosions.
III.XV.48

It is not a fact that too much wealth is produced. But it is true that there is periodical overproduction of wealth in its capitalistic and self-contradictory form.
III.XV.49

The barrier of the capitalist mode of production becomes apparent:

1) In the fact that the development of the productive power of labor creates in the falling rate of profit a law which turns into an antagonism of this mode of production at a certain point and requires for its defeat periodical crises.

2) In the fact that the expansion or contraction of production is determined by the appropriation of unpaid labor, and by the proportion of this unpaid labor to materialised labor in general, or, to speak the language of the capitalists, is determined by profit and by

the proportion of this profit to the employed capital, by a definite rate of profit, instead of being determined by the relations of production to social wants to the wants of socially developed human beings. The capitalist mode of production, for this reason, meets with barriers at a certain scale of production which would be inadequate under different conditions. It comes to a standstill at a point determined by the production and realisation of profit, not by the satisfaction of social needs.

III.XV.50

If the rate of profit falls, there follows on one hand an exertion of capital, in order that the capitalist may be enabled to depress the individual value of his commodities below the social average level and thereby realise an extra profit at the prevailing market prices. On the other hand, there follows swindle and a general promotion of swindle by frenzied attempts at new methods of production, new investments of capital, new adventures, for the sake of securing some shred of extra profit, which shall be independent of the general average and above it.

III.XV.51

The rate of profit, that is, the relative increment of capital, is above all important for all new offshoots of capital seeking an independent location. And as soon as the formation of capital were to fall into the

hands of a few established great capitals, which are compensated by the mass of profits for the loss through a fall in the rate of profits, the vital fire of production would be extinguished. It would fall into a dormant state. The rate of profit is the compelling power of capitalist production, and only such things are produced as yield a profit. Hence the fright of the English economists over the decline of the rate of profit. That the bare possibility of such a thing should worry Ricardo, shows his profound understanding of the conditions of capitalist production. The reproach moved against him, that he has an eye only to the development of the productive forces regardless of "human beings," regardless of the sacrifices in human beings and capital values incurred, strikes precisely his strong point. The development of the productive forces of social labor is the historical task and privilege of capital. It is precisely in this way that it unconsciously creates the material requirements of a higher mode of production. What worries Ricardo is the fact that the rate of profit, the stimulating principle of capitalist production, the fundamental premise and driving force of accumulation, should be endangered by the development of production itself. And the quantitative proportion means everything here. There is indeed something deeper than this hidden at this point, which he vaguely feels. It is here demonstrated in a purely economic way, that is, from a bourgeois point of view, within the confines of capitalist understanding, from the standpoint of capitalist production itself, that it has a barrier, that it is relative, that it is not an absolute, but only

a historical mode of production corresponding to a definite and limited epoch in the development of the material conditions of production.

IV. Supplementary Remarks.

III.XV.52

Seeing that the development of the productive power of labor proceeds very disproportionately in the various lines of industry, not only in degree, but also in at times in opposite directions, it follows that the mass of the average profit (= surplus-value) must be considerably below that level, which one would naturally assume according to the development of the productive forces in the most advanced lines of industry. The fact that the development of the productive forces in different lines of industry proceeds in considerably different rates, or even in opposite directions, is not due merely to the anarchy of competition and the peculiarity of the bourgeois mode of production. The productivity of labor is also conditioned on natural premises, which frequently become less productive to the extent that productivity, so far as it depends on social conditions, increases. This leads to opposite movements in these different spheres, progress here, retrogression there. Consider, for instance, the mere influence of the seasons, on which the greater part of the raw materials depends for its mass, the exhaustion of forests, coal and iron mines, etc.
III.XV.53

While the circulating part of constant capital, such as raw material, etc., continually increases in mass to the extent that the productivity of labor grows, it is not so with the fixed capital, such as buildings, machinery, apparatus for lighting, heating, etc. Although a machine becomes absolutely dearer with the growth of its bodily mass, it becomes relatively cheaper. If five laborers produce ten times as many commodities as formerly, this does not increase the outlay for fixed capital tenfold; although the value of this part of the constant capital increases with the development of the productive forces, it does not increase by any means in the same proportion with them. We have frequently pointed out the difference in the proportions of the constant to the variable capital, as it expresses itself in the fall of the rate of profit, and the difference in the same proportions as expressed with the development of the productivity of labor with reference to the individual commodity and its price.
III.XV.54

[The value of a commodity is determined by the total labor-time, whether past or living, incorporated in it. The increase in the productivity of labor consists precisely in this that the share of the living labor is reduced while that of the past labor is increased, but in such a way that the total quantity of labor incorporated in that commodity declines, so that the living labor decreases more than the past labor increases. The past labor‘the constant part of capital‘

materialised in the value of a certain commodity consists partly of wear and tear of fixed, partly of circulating constant capital entirely consumed by that commodity, such as raw and auxiliary materials. That portion of value which comes from raw and auxiliary materials must decrease with the productivity of labor, because this productivity seeks expression through these materials by reducing their value. On the other hand, it is precisely characteristic of the rising productivity of labor, that the fixed part of the constant capital is strongly augmented and with it that portion of value which is transferred by wear and tear to the commodities. In order that a new method of production may turn out to be a real increase in productivity, it must transfer in wear and tear a smaller portion of the value of fixed capital than is deducted from it through a saving of living labor, in short, it must reduce the value of the commodity. It must do so as a matter of course, even if an additional value is transferred to the commodity through an increase in the quantity or value of raw and auxiliary materials, as may sometimes happen. All additions of value must be more than compensated by the reduction in value resulting from a decrease in living labor.
III.XV.55

This reduction of the total quantity of labor incorporated in a certain commodity seems to be the essential mark of an increase in the productive power of labor, no matter under what sort of social conditions production is carried on. There is no doubt that the

productivity of labor would be measured by this standard in a society, in which the producers would regulate their production according to a preconceived plan, or even under a simple production of commodities. But how is this under capitalist production?
III.XV.56

Take it, for instance, that a certain line of capitalist industry produces an average normal commodity of its sphere under the following conditions: The wear and tear of fixed capital amounts to ½ shilling per piece; raw and auxiliary materials are transferred into it at the rate of 17½ shillings per piece; in wages, 2 shillings, and surplus-value 2 shillings, the rate of surplus-value being 100%. Total value 22 shillings. We assume for the sake of simplicity that the capital in this line of production has the composition of the average social capital, so that the price of production of the commodities is identical with the value and the profit of the capitalist with the created surplus-value. In that case the cost-price of the commodity is ½ + 17½ + 2 = 20 sh., the average rate of profit 2/20 = 10%, and the price of production of one individual commodity 22 sh., equal to its value.
III.XV.57

Now let us assume that a machine is invented, which reduces the living labor required for each individual commodity by one-half, but at the same time trebles that portion of the commodity's value which is due to the wear and tear of fixed capital. In that case, the calculation

is modified in this way: Wear and tear 1½ sh., raw and auxiliary materials the same as before, 17½ sh., wages 1 sh., surplus-value 1 sh., together 21 sh. The commodity has then fallen 1 sh. in value: The new machine has certainly increased the productivity of labor. From the point of view of the capitalist, the matter has now the following aspect: His cost-price is now 1½ sh. for wear, 17½ sh. for raw and auxiliary materials, 1 sh. for wages, total 20 sh., as before. Since the rate of profit is not at once altered by the new machine, he will receive 10% more than his cost-price, that is, 2 sh. The price of production, then, remains unaltered at 22 sh., as before, but it is 1 sh. above the value of these commodities. So far as a society producing under capitalist conditions is concerned, the commodity has not become any cheaper, the new machine signifies no improvement. The capitalist is therefore not interested in the introduction of this new machine. And since its introduction would make his present and not yet worn-out machinery simply worthless, would make old iron of it, would mean a positive loss for him, he takes good care not to commit such a utopian mistake.
III.XV.58

The law of increased productive power, then, does not apply absolutely to capital. So far as capital is concerned, the productive power is not increased by the enhancement of productive labor in general, but only by saving more in the unpaid portion of living labor than is expended in past labor, as we have already indicated in

volume I, chapter XV, 2. Here the capitalist mode of production falls into another contradiction. Its historical mission is the ruthless development in geometrical progression, of the productivity of human labor. It becomes disloyal to its mission, whenever it puts a check upon the development of productivity, as it does here. Thus it demonstrates once again that it is becoming weak with age and more and more outliving its usefulness.]*37
III.XV.59

Under competition, the increase in the minimum of capital required for the successful operation of an independent industrial establishment in keeping with the increase in productivity assumes the following aspect: As soon as the new and more expensive equipment has become universally established, smaller capitals are henceforth excluded from these enterprises. Smaller capitals can carry on an independent activity in such lines only during the incipient stage of mechanical inventions. On the other hand, very large enterprises, such as railroads, with an extraordinarily high relative proportion of constant capital, do not yield any average rate of profit, but only a portion of it, interest. Otherwise the rate of profit would fall still lower. At the same time, this offers direct employment to large aggregations of capital in the form of stocks.
III.XV.60

An increase of capital, or accumulation of capital, does not imply a fall in the rate of profit, unless this growth is accompanied by the aforementioned alterations in the proportions of the organic constituents of capital. Now it so happens that in spite of the continual and daily revolutions in the mode of production, now this, now that, greater or smaller portion of the total capital continues for certain periods to accumulate on the basis of a given average proportion of those constituents, so that its growth does not imply any organic change, and consequently no fall in the rate of profit. This continual expansion of capital, and consequently expansion of production on the basis of the old method of production, which proceeds quietly while the new methods are already developing by its side, is another reason, why the rate of profit does not decrease in the same degree in which the total capital of society grows.
III.XV.61

The increase of the absolute number of laborers, in spite of the relative decrease of the variable as compared to the constant capital, does not take place in all lines of production, and not uniformly in those in which it does proceed. In agriculture, the decrease of the element of living labor may be absolute.
III.XV.62

By the way, it is but a requirement of the capitalist mode of production that the number of wage workers should increase

absolutely, in spite of its relative decrease. Under this mode, labor-powers become superfluous as soon as it is no longer compelled to employ them for 12 to 15 hours per day. A development of the productive forces which would diminish the absolute number of laborers, that is, which would enable the entire nation to accomplish its total production in a shorter time, would cause a revolution, because it would put the majority of the population upon the shelf. In this the specific barrier of capitalist production shows itself once more, proving that capitalist production is not an absolute form for the development of the productive powers and creation of wealth, but rather comes in collision with this development at a certain point. This collision expresses itself partly through periodical crises, which arise from the circumstance that now this, now that, portion of the laboring population is rendered superfluous in its old mode of employment. The barrier of capitalist production is the superfluous time of the laborers. The absolute spare time gained by society does not concern Capitalism. The development of the productive powers concerns it only to the extent that it increases the surplus labor time of the working class, not to the extent that it decreases the labor time for material production in general. Thus capitalist production moves in contradictions.
III.XV.63

We have seen that the growing accumulation of capital implies its growing concentration. Thus the power of capital, the personification

of the conditions of social production in the capitalist, grows over the heads of the real producers. Capital shows itself more and more as a social power, whose agent the capitalist is, and which stands no longer in any possible relation to the things which the labor of any single individual can create. Capital becomes a strange, independent, social power, which stands opposed to society as a thing, and as the power of capitalists by means of this thing. The contradiction between capital as a general social power and as a power of private capitalists over the social conditions of production develops into an ever more irreconcilable clash, which implies the dissolution of these relations and the elaboration of the conditions of production into universal, common, social conditions. This elaboration is performed by the development of the productive powers under capitalist production, and by the course which this development pursues.

III.XV.64

No capitalist voluntarily introduces a new method of production, no matter how much more productive it may be, and how much it may increase the rate of surplus-value, so long as it reduces the rate of profit. But every new method of production of this sort cheapens the commodities. Hence the capitalist sells them originally above their prices of production, or, perhaps, above their value. He pockets the difference, which exists between these prices of production and the market-prices of the other commodities produced at higher prices of

production. He can do this, because the average labor time required socially for the production of these other commodities is higher than the labor time required under the new methods of production. His method of production is above the social average. But competition generalises it and subjects it to the general law. Then follows a fall in the rate of profit‘perhaps first in this sphere of production, which gradually brings the others to its level‘which is, therefore, wholly independent of the will of the capitalist.
III.XV.65

It must be noted here, that this same law rules also those spheres of production, whose product passes neither directly nor indirectly into the consumption of the laborers or into the conditions under which their necessities are produced; it applies, therefore, also to those spheres of production, in which no cheapening of commodities can increase the relative surplus-value or cheapen labor-power. (It is true that a cheapening of constant capital may increase the rate of profit in all these lines while the exploitation of the laborer remains the same.) As soon as the new mode of production begins to expand, and thereby to furnish the tangible proof that these commodities can actually be produced more cheaply, the capitalists working under the old methods of production must sell their product below their full prices of production, because the value of these commodities has fallen, because the labor time required by these capitalists for the production of these commodities is longer than the social average. In

one word‘this appears as the effect of competition‘these capitalists are compelled to introduce the new method of production, under which the proportion of the variable to the constant capital has been reduced.
III.XV.66

All circumstances, which bring about the cheapening of commodities by the employment of improved machinery amount in the last analysis to a reduction of the quantity of labor absorbed by the individual commodities; in the second place, to a reduction of the wear and tear portion of machinery transferred to the value of the individual commodity. To the extent that the wear and tear of machinery is less rapid, it is distributed over more commodities and displaces more living labor during its period of reproduction. In both cases the quantity and value of the fixed constant capital are increased over those of the variable capital.
III.XV.67

"All other things being equal, the power of a nation to save from its profits varies with the rate of profits, is great when they are high, less, when low; but as the rate of profit declines, all other things do not remain equal....A low rate of profit is ordinarily accompanied by a rapid rate of accumulation, relatively to the numbers of the people, as in England...a high rate of profit by a slower rate of accumulation, relatively to the numbers of the people." Examples: Poland, Russia,

India, etc. (Richard Jones, An Introductory Lecture on Political Economy, London, 1833, p. 50ff.) Jones emphasises correctly that in spite of the falling rate of profit the inducements and faculties to accumulate are augmented; first, on account of the growing relative overpopulation; secondly, because the growing productivity of labor is accompanied by an increase in the mass of use-values produced by the same exchange value, that is, an increase in the material elements of capital, thirdly, because the lines of production become more varied; fourthly, because the credit system, lock companies, etc., are developed, and with them the facility of converting money into capital without becoming an industrial capitalist; fifthly, because the wants and the greed for wealth increase; sixthly, because the mass of investments in fixed capital grows; etc.

III.XV.68

The following three principal facts of capitalist production must be kept in mind:

1) Concentration of means of production in a few hands, whereby they cease to appear as the property of the immediate laborers and transform themselves into social powers of production. It is true, they first become the private property of capitalists. These are the trustees of bourgeois society, but they pocket the proceeds of their trusteeship.

2) Organisation of labor itself into social labor, by social co-operation, division of labor, and combination of labor with natural sciences.

In both directions, the capitalist mode of production abolishes private property and private labor, even though it does so in contradictory forms.

3) Creation of the world market.

III.XV.69

The stupendous productive power developing under the capitalist mode of production relatively to population, and the increase, though not in the same proportion, of capital values (not their material substance), which grow much more rapidly than the population, contradict the basis, which, compared to the expanding wealth, is ever narrowing and for which this immense productive power works, and the conditions, under which capital augments its value. This is the cause of crises.

Notes for this chapter

37.
The foregoing is placed between brackets, because it passes in some points beyond the scope of the original material, which I found in a note of the original manuscript, a revision of which I undertook.

PART IV.
TRANSFORMATION OF COMMODITY-CAPITAL AND MONEY-CAPITAL INTO COMMERCIAL CAPITAL AND FINANCIAL CAPITAL (MERCHANT'S CAPITAL).
Part IV,

Volume III Chapter XVI COMMERCIAL CAPITAL.

IV.XVI.1

MERCHANT'S capital, or trading capital, consists of two subdivisions, namely commercial capital and financial capital, which we shall now proceed to define more in detail, so far as is necessary for the analysis of capital in its innermost structure. This is so much the more needed, as modern political economy, even in its best representatives, indiscriminately mixes trading capital with industrial capital and wholly over looks the characteristic peculiarities of the former.
IV.XVI.2

The movements of commodity-capital have been analysed in volume II. The total capital of society exists always in part in commodities on the market about to be converted into money, and this part is naturally made up of ever changing elements and is continually

changing in quantity. Another part exists as money on the market, ready to be converted into commodities. These portions of the total capital are perpetually passing through these metamorphoses. To the extent that this function of capital in the process of circulation becomes a special function of independent capital and becomes an established service assigned by division of labor to some particular species of capitalists, the commodity-capital becomes commercial or financial capital.
IV.XVI.3

In volume II, chapter VI, under the head of cost of circulation, 2 and 3, we have explained to what extent the transportation industry, the storage and distribution of commodities in a distributable form, may be regarded as processes of production continuing within the process of circulation. These incidents in the circulation of commodity-capital are sometimes confounded with the peculiar functions of commercial or financial capital. It is true that the peculiar functions of these last-named forms of capital are sometimes practically combined with those incidental ones, but with the advancing development of social division of labor the functions of merchant's capital evolve into a distinct type and are separated from those real functions connected with those incidents in circulation. For our present purpose, which is to define the specific difference of this special form of capital, we must leave aside those other functions as irrelevant. So far as capital employed only in the process of circulation, such as commercial capital, combines at

times those other functions with its specific ones, it does not appear in its typical form. We do not get its pure type, until we strip it of all incidental functions.

IV.XVI.4

We have seen that the existence of capital in the shape of commodity-capital and the metamorphoses through which it passes within the sphere of circulation in its capacity as commodity-capital on the market‘a series of metamorphoses expressed by buying and selling, conversion of commodity-capital into money-capital and money-capital into commodity-capital‘form a phase in the process of reproduction of industrial capital, that is, a phase in its process of production as a whole. But we have also seen at the same time that it is distinguished in its function as capital of circulation from its function as productive capital. These are two different and separate forms of existence of the same capital. One portion of the total social capital is continually on the market in the form of capital of circulation, passing through those metamorphoses. For each individual capital, however, its existence as commodity-capital, and its metamorphoses in this form, represent merely ever vanishing and ever renewed points of transition, stages of transition in the continuity of its process of production. And the elements of commodity-capital on the market vary continually, being perpetually withdrawn from the market and just as perpetually returned to it as new products of the process of production.

IV.XVI.5

Commercial capital is nothing else but a changed form of a portion of this capital of circulation, which exists continually on the market in the process of its metamorphoses within the sphere of circulation. We say explicitly, a portion, because a portion of the selling and buying of commodities takes place between the industrial capitalists themselves. We leave this portion entirely out of consideration in this analysis, because it contributes nothing to the definition of the concept, or to the understanding of the specific nature, of merchant's capital. Moreover, it has been exhaustively treated in volume II.

IV.XVI.6

The dealer in commodities, as a capitalist, appears first on the market as the representative of a certain sum of money, which he advances in his capacity as a capitalist. He desires to transform this sum of money from its original value x into x + &x, that is, the original sum plus his profit. But it is evident that his capital must first enter the market in the shape of money, not only on account of his capacity as a capitalist in general, but also as a trader in commodities in particular. For he does not produce any commodities. He merely trades in them, he acts as middleman in their movements, and in order to be able to trade in them, he must first buy them, must be the owner of money-capital.

IV.XVI.7

Take it that a trader in commodities owns 3,000 p.st., which he invests as a trading capital. He buys with these 3,000 p.st., say, 30,000 yards of linen from some linen manufacturer, at 2 sh. per yard. Then he sells his 30,000 yards. If the annual average rate of profit is 10%, and if he makes a profit of 10% after deducting all incidental expenses, then he has converted his 3,000 p.st. into 3,300 p.st. at the end of one year. How he makes this profit is a question which we shall discuss later. At this place we merely intend to observe the form, which the movements of his capital take. He continually buys with his 3,000 p.st. linen and sells this linen; he continually repeats this operation of buying for the purpose of selling, M‘C‘M', the simple form of capital confined entirely to the sphere of circulation and not interrupted by the intervention of the process of production, which lies outside of its own movement and function. IV.XVI.8

What, then, is the relation of this commercial capital to the commodity-capital representing a mere passing phase of industrial capital? So far as the linen manufacturer is concerned, he has realised the value of his linen with the money of the merchant. He has thereby completed the first phase in the metamorphosis of commodity-capital, its conversion into money, and he can now, provided that circumstances remain the same, proceed to reconvert this money into yarn, coal, wages, etc., or into means of existence, etc., for the

consumption of his revenue. Leaving aside the spending of his revenue, he can continue his process of production.
IV.XVI.9

But while the sale of the linen, its metamorphosis into money, has taken place so far as its direct producer is concerned, it has not yet taken place so far as the linen itself is concerned. It is still on the market as a commodity-capital and awaits the completion of its first metamorphosis, awaits its sale. Nothing has happened to this linen but a change in the person of its owner. From the point of view of its own destination, of its position in the process, it is still a commodity-capital, a saleable commodity; only, it is now in the hands of the merchant instead of those of the manufacturer. The function of selling it, of serving as an agent in the first phase of its metamorphosis, has been transferred from the manufacturer to the merchant, has been converted into the particular business of the merchant, while it used to be a function, which the producer had to perform after completing the process of its production.
IV.XVI.10

Now let us assume that the merchant would not succeed in disposing of those 30,000 yards of linen during the interval, which the linen manufacturer requires for the production of another lot of 30,000 yards and its marketing at 3,000 p.st. In that case, the merchant cannot buy this new lot, because he still has the old stock of 30,000

yards on hand, which he has not yet reconverted into money-capital. A stagnation then ensues, an interruption of reproduction. Of course, the linen manufacturer might have some additional money-capital in reserve, which he might convert into productive capital independently of the sale of those 30,000 yards of linen, in order to continue his process of production. But this assumption would not alter the matter. So far as the capital tied up in the 30,000 yards of linen is concerned, its process of reproduction is and remains interrupted. Here we see indeed very clearly, that the operations of the merchant are really nothing but operations which must be performed under all circumstances in order to convert the commodity-capital of the producer into money-capital, operations, which promote the functions of the commodity-capital in the process of circulation and reproduction. If a clerk of the producer were to attend exclusively to the sale, and also with the purchase, instead of an independent merchant, this connection would not be obscured for a moment. IV.XVI.11

Commercial capital, then, is nothing but the commodity-capital of the producer, which has to pass through its transformation into money and to perform its function of commodity-capital on the market. The difference is only that this incidental function of the producer is now established as the exclusive business of a special kind of capitalists, of merchants, and becomes the independent business of a special investment of capital.

This is furthermore shown in the specific form of the circulation of commercial capital. The merchant buys a commodity and then sells it: M‘C‘M'. In the simple circulation of commodities, or even in the circulation of commodities as it appears when a process of circulation of industrial capital, C‘‘M‘C, circulation is promoted by the circumstance that every piece of money changes hands twice. The linen manufacturer sells his commodity, the linen, converts it into money; the money of the buyer passes into his hands. With this money he buys yarn, coal, labor, etc., he spends the same money for the purpose of reconverting the value of linen into those commodities which form the elements of production of linen. The commodity which he buys is not the same kind of commodity which he sells. He has sold products and bought means of production. But it is different with the movements of commercial capital. With his 3,000 p.st., the linen merchant buys 30,000 yards of linen. He sells the same linen for the purpose of recovering his money-capital (increased by profits) from the circulation. It is not the same pieces of money which here change places twice, but the same commodities; the linen passes from the seller into the hands of the buyer, and from the hands of the buyer, who becomes a seller, into those of another buyer. It is sold twice, and it may be sold still oftener, if a series of other merchants intervenes. And it is precisely through this repeated sale, this twofold change of place of the same commodity, that the money advanced by

its first buyer for its purchase is recovered, its reflux to him promoted. In the case of C'‘M‘C the twofold change of place of the same money assists in the sale of one form of commodities and the purchase of another form. In the other case, M‘C‘M', the twofold change of place of the same commodity assists in the recovery of the advanced money from the circulation. This shows that the commodity has not been definitely sold, when it has passed from the hands of the producer into those of the merchant, and that the latter merely continues the operation of selling‘or promotes the functions of commodity-capital. But it shows at the same time that the operation C ‘M, which represents for the productive capitalist a mere function of his capital in its transient form of commodity-capital, constitutes for the merchant the movement M‘C‘M', that is, a specific utilisation of his advanced money-capital. A phase in the metamorphosis of commodities here shows itself, with reference to the merchant, in the form of M‘C‘M', that is, as the evolution of a separate kind of capital. IV.XVI.13

The merchant sells his commodity, in this case the linen, definitely to the consumer, whether it be a productive consumer (for instance, a bleacher), or an individual consumer who uses the linen for his private needs. By this means the merchant recovers his advanced capital (with a profit), and he can then repeat his operation. If the money had served merely as a means of payment, when the merchant bought the linen from the manufacturer, for instance, if the merchant

would not have had to make payment until after six weeks, he might be able to pay the manufacturer without even advancing any money-capital of his own. But if he should not have sold the goods at the end of six weeks, he would have to advance his 3,000 p.st. on the date of the expiration, instead of advancing them on delivery of the linen. And if a fall in the market-price should have compelled him to sell below his purchase price, he would have to make good the loss out of his own capital.
IV.XVI.14

Now, what is it that lends to commercial capital the character of an independently operating capital, while in the hands of the producer who does his own selling, it is obviously merely a special form of his capital in some particular phase of his process of reproduction, during its sojourn in the sphere of circulation?
IV.XVI.15

1) It is, in the first place, the fact that the commodity-capital completes its definite conversion into money, its first metamorphosis, its function on the market in its capacity as commodity-capital, in the hands of another agent than the producer, and that this function of commodity-capital is promoted by the operations of the merchant, by his buying and selling, so that these transactions constitute themselves into a separate and independent business distinct from the other functions of industrial capital. Through it a portion of a function,

which used to be performed in circulation as a special phase of the process of reproduction, is molded into the exclusive function of an independent agent of the circulation distinct from the producer. But this alone would not be enough to give to this special business the aspect of a function of an independent capital distinct from the industrial capital in process of self-expansion. In fact, it does not assume this aspect in cases where the trade in commodities is carried on by traveling agents, or by other direct agents of the industrial capitalist. Another element is necessary to complete its special character.
IV.XVI.16

2) This second element is introduced by the fact that the independent agent of circulation, the merchant, advances money-capital (his own or borrowed) in this position. The transaction which amounts for the industrial capital in process of reproduction merely to C‘M, to a conversion of commodity-capital into money-capital, to a mere sale, assumes for the merchant the form M‘C‘M', purchase and sale of the same commodity, and thus to a reflux, by means of a sale, of the money-capital expended in a purchase.
IV.XVI.17

It is always C‘M, the conversion of commodity-capital into money, which assumes for the merchant the form of M‘C‘M, whenever he advances money for the purchase of commodities from their

producers; it is always the first metamorphosis of commodity-capital, although the same transaction may amount for a producer, or for industrial capital in process of reproduction, to M‘C, a reconversion of money into commodities (means of production), the second phase of this metamorphosis. For the linen producer, the first metamorphosis was C‘M, the conversion of commodity-capital into money-capital. This transaction amounts for the merchant to M‘C, the conversion of his money-capital into commodity-capital. Now, if he sells this linen to a bleacher, it means M‘C, conversion of money-capital into productive capital, for the bleacher, which represents the second metamorphosis of his commodity-capital; while it means C‘M, the sale of the linen, for the merchant. Actually the commodity-capital manufactured by the producer has now been definitely sold. This transaction, M‘C‘M, on the part of the merchant represents but the action of a middleman for the transaction C‘M between two producers. Or let us assume, that the linen manufacturer buys with a portion of the value of the sold linen some yarn from a yarn dealer. This is M‘C for him. For the merchant selling the yarn it is C‘M, resale of the yarn. So far as the yarn itself is concerned, in its capacity of commodity-capital, it amounts to its definite sale, its transition from the sphere of circulation into the sphere of production by means of C‘M, the definite conclusion of its first metamorphosis. Whether the merchant buys from the industrial capitalist, or sells to him, the circulation of his merchant's capital, M‘C‘M, always expresses but the same thing, which constitutes, from the point of view of the commodity-capital itself, a

form of transition of the industrial capital in process of reproduction, C ‘M, the mere completion of its first metamorphosis. The M‘C of the merchant's capital amounts only for the industrial capitalist to C‘M, but not for the commodity-capital produced by him. It is but the transfer of the commodity-capital from the hands of the industrial capitalist to those of the agent of circulation; Not until the merchant's capital closes the transaction C‘M does commodity-capital as such perform its final C‘M. M‘C‘M amounts merely to two times C‘M on the part of the same commodity-capital, two successive sales of it, which promote its last and final sale.
IV.XVI.18

It is evident, then, that commodity-capital assumes in commercial capital the form of an independent class of capital through the fact that the merchant advances money-capital. This money-capital serves its purpose as capital only by attending exclusively to the conversion of commodity-capital into money-capital, and it accomplishes this by the continual purchase and sale of commodities. This is its exclusive work. This promotion of the process of circulation of industrial capital is the exclusive function of the money-capital with which the merchant operates. By means of this function he converts his money into money-capital, molds his M into M‘C‘M', and by the same process he converts commodity-capital into commercial capital.
IV.XVI.19

So long and so far as commercial capital exists in the form of commodity-capital, from the point of view of the process of reproduction of the total social capital, it is obviously nothing else but that portion of the industrial capital in process of metamorphosis, which is still on the market and serves as commodity-capital. It is therefore only the money-capital advanced by the merchant, which is exclusively destined for purchase and sale and for this reason never assumes any other form but that of commodity-capital and money-capital, always remaining confined to the sphere of circulation. It is only this money-capital which is now to be analysed with reference to the entire process of reproduction of capital.
IV.XVI.20

As soon as the producer, the linen manufacturer has sold his 30,000 yards of linen to the merchant for 3,000 p.st., he buys with the money so obtained the necessary means of production, and his capital re-enters the process of production; his process of production continues without interruption. So far as he is concerned, the conversion of his commodity into money has been accomplished. But we have already seen that the linen itself has not yet closed its metamorphosis. It has not yet been definitely reconverted into money, it has not yet passed as a use-value into productive or individual consumption. The linen merchant now represents on the market the same commodity-capital, which the linen manufacturer represented originally. So far as the manufacturer is concerned, the process of

transformation has been abbreviated, but only to be continued through the hand of the merchant.
IV.XVI.21

If the linen producer had to wait, until his linen had really ceased being a commodity, until it had actually passed into the hands of its final purchaser for productive or individual consumption, his process of reproduction would be interrupted. Or, if he did not wish to interrupt it, he would have had to restrict his operations, to transform a smaller portion of the value of his linen into yarn, coal, labor, etc., in short, into the elements of productive capital, and to hold back a larger portion of it as a money-reserve. While one portion of his capital would then be on the market in the shape of commodities, another would be enabled to continue in the process of production. In this way, one portion would return in the shape of money, while another would be going to market in the form of commodities. This division of capital of the individual producer is not abolished by the intervention of the merchant. But without it that portion of the capital of circulation which is held as a money reserve would have to be always greater in proportion than the portion employed as productive capital, and the scale of production would have to be restricted accordingly. Instead of that, the producer is now enabled to employ a larger portion of his capital continually in the process of production itself, and a smaller portion as a money reserve.
IV.XVI.22

This is offset on the other hand by the fact that another portion of the social capital, in the shape of merchant's capital, is held continually within the sphere of circulation. It is employed for no other purpose but that of buying and selling. There seems then to have been no other change but that of the persons who hold this capital in their hands.
IV.XVI.23

If the merchant, instead of buying 3,000 p.st.'s worth of linen with the intention of selling it again, were to employ these 3,000 p.st. productively himself, then the productive capital of society would be increased. It is true, that the linen producer would then have to hold back a larger portion of his capital as a money reserve, and likewise the merchant who has now been transformed into an industrial capitalist. On the other hand, if the merchant were to remain a merchant the producer would save time in selling which he could employ for the supervision of the process of production, while the merchant would have to devote his whole time to selling.
IV.XVI.24

If the merchant's capital does not exceed its necessary proportions, it may be assumed
IV.XVI.25

1) that as a result of division of labor, the capital devoted exclusively to buying and selling (and this includes not only the money required for the purchase of commodities, but also the money which must be invested in the labor required for running the business of the merchant, in the constant capital of the merchant, store rooms, transportation, etc.) is smaller than it would be, if the industrial capitalist had to carry on the entire commercial part of his business himself;
IV.XVI.26

2) that the exclusive occupation of the merchant with this business enables the producer to convert his commodities more rapidly into money, and permits the commodity-capital itself to pass more quickly through its metamorphosis, than it would in the hands of the producer;
IV.XVI.27

3) that looking upon the entire merchant's capital in proportion to the industrial capital, one turn-over of the merchant's capital may represent not only the turn-overs of many capitals in one sphere of production, but the turn-overs of a numbers of capitals in different spheres of production. The first is the case when the linen merchant, after buying with his 3,000 p.st. the product of some linen producer, sells it before the same producer can bring another lot of the same quantity to market, so that the linen merchant has to buy the product

of another, or several other, linen manufacturers. When he sells this, he promotes the turn-overs of different capitals in the same sphere of production. The second is the case, if the merchant, after selling his linen, buys, for instance, some silk. In this way he promotes the turn-overs of capitals in different spheres.
IV.XVI.28

In general it may be noted that the turn-over of the industrial capital is not limited merely by the time of circulation, but also by the time of production. The turn-over of merchant's capital, so far as it deals in one sort of commodities, is limited, not merely by the turn-over of one industrial capital, but by the turn-overs of all industrial capitals in the same line of production. After the merchant has bought and sold the linen of one producer, he can buy and sell that of another, before the first can bring another lot of his product on the market. The same merchant's capital may, therefore, promote successively the different turn-overs of the industrial capitals invested in a certain line of production. Its turn-over is therefore not identified with the turn-overs of one sole industrial capital, but with the turn-overs of many, and it does not take the place of but one money reserve, which one single industrial capitalist would have to hold back. The turn-over of the merchant's capital in one sphere of production is naturally determined by the total production of that sphere. But it is not determined by the limits of production or the time of turn-over of any single capital of the same sphere, so far as its time of turn-over is

determined by its time of production. For instance, let us assume that A supplies a commodity, which requires three months for its production. After the merchant has bought and sold it, say, in one month, he can buy and sell the same product of some other producer. Or, after he has sold, say, the corn of some farmer, he can buy with the same money that of another and another, etc. The turn-over of his capital is limited by the mass of corn, which he can buy successively in a certain time, for instance, in one year, while the capital of the farmer is limited in its turn-over, aside from the time of circulation, by the time of production, which lasts one year.
IV.XVI.29

However, the turn-over of the same merchant's capital may promote equally well the turn-overs of capitals in different lines of production.
IV.XVI.30

To the extent that the same merchant's capital serves in different turn-overs to transform different commodity-capitals successively into money, buying and selling them one after another, it performs in its capacity as money-capital the same function with regard to the commodity-capital, which money in general performs by means of its turn-overs within a certain period with regard to commodities.
IV.XVI.31

The turn-over of merchant's capital is not identical with the turn-over or with one single reproduction of one industrial capital of the same size; it is rather equal to the sum of the turn-overs of a number of such capitals, either in the same, or in different spheres of production. The quicker merchant's capital is turned over, the smaller is that portion of the total money-capital, which serves as merchant's capital; the slower it is turned over, the larger is that same portion. The more undeveloped production is, the larger is the sum of merchant's capital as compared to the sum of the commodities thrown into circulation; but so much smaller is it absolutely, or compared with more developed conditions. Vice versa, the opposite holds good. In such undeveloped conditions the greater part of the strict money-capital is in the hands of the merchants, whose wealth constitutes the money wealth as compared to the wealth of others.
IV.XVI.32

The velocity of the circulation of the money-capital advanced by the merchant depends: 1) on the velocity with which the process of production is renewed and the different processes of production are linked together; 2) on the velocity of consumption.
IV.XVI.33

It is not necessary that merchant's capital should pass merely through the above mentioned turn-over, by first buying commodities to its full amount and then selling them. The merchant may make both

movements at the same time. His capital is then divided into two parts. One of them consists of commodity-capital, the other of money-capital. Here he buys and converts his money into commodities. There he sells and converts another part of his commodity-capital into money. On one side, his capital returns in the shape of money-capital, on the other it returns in the shape of commodity-capital. The larger the portion assuming one shape, the smaller the portion assuming another. This alternates and balances itself. If money is not employed merely as a medium of circulation, but also as a means of payment and in conjunction with the credit system, which develops along with it, then the money portion of the merchant's capital is reduced still more in proportion to the volume of the transactions promoted by the merchant's capital. If I buy 1,000 p.st.'s worth of wine on three months' credit, and sell all the wine for cash before the expiration of the three months, then I do not need to advance one penny for these transactions. In this case it is quite obvious that the money-capital, which here serves as merchant's capital, is nothing but industrial capital itself in the shape of money-capital, in process of reflux to itself in the shape of money. (The fact that the producer who sold 1,000 p.st.'s worth of wine on three months' credit may discount his note, which is a certificate of indebtedness of the buyer, at some bank does not alter the matter and has nothing to do with the capital of the merchant.) If market-prices should fall in the mean time by 1/10, the merchant would not only make no profit, but would recover only 2,700 p.st. instead of 3,000 p.st. He would then have to

put up 300 p.st. out of his own pocket. These 300 p.st. serve merely as a reserve for balancing the difference in price. But the same applies to the producer. If he had sold at falling prices, he would likewise have lost 300 p.st., and could not begin production on the same scale without reserve capital.
IV.XVI.34

The linen merchant buys 3,000 p.st.'s worth of linen from the manufacturer. The manufacturer uses 2,000 p.st. of the 3,000 to buy yarn. He buys this yarn from a yarn dealer. The money with which the manufacturer pays the yarn dealer does not belong to the linen dealer. For the latter has received commodities to this amount. It is the money-form of the manufacturer's own capital. In the hands of the yarn dealer these 2,000 p.st. now appear as returned money-capital. But to what extent are they so, in what respect do they differ from the 2,000 p.st. representing the discarded money-form of the linen and the assumed money-form of the yarn? If the yarn dealer bought on credit and sold for cash before the expiration of his time, then these 2,000 p.st. do not contain one penny of merchant's capital as distinguished from the money-form, which the industrial capital itself assumes in the course of its circulation. The commercial capital then, so far as it is not a mere form of industrial capital, held in the hands of the merchant in the shape of commodity-capital or money-capital, is nothing but that portion of the money-capital which belongs to the merchant himself and is circulated by the purchase and sale of

commodities. This portion represents on a reduced scale that part of the capital advanced for production, which must always be in the hands of the industrial as a money reserve, medium of purchase, and which would always have to circulate as money-capital. This portion, in a reduced scale, is now in the hands of capitalist merchants, and performs its functions only in the process of circulation. It is that portion of the total capital which, aside from expenditures of revenue, must continually circulate on the market as a medium of purchase in order to maintain the continuity of the process of reproduction. This portion is so much smaller in comparison to the total capital, the more rapidly the process of reproduction takes place, and the more developed the function of money as a means of payment, that is, of the credit-system.*38
IV.XVI.35

Merchant's capital is simply capital performing its functions in the sphere of circulation. The process of circulation is a phase of the total process of reproduction. But no value is produced in the process of circulation, and, therefore, no surplus-value. Nothing takes place there but changes of form of the same mass of values. In fact, nothing occurs there but the metamorphosis of commodities, and this has nothing to do either with the creation or with the transformation of values. If surplus-value is realised by the sale of the produced commodities, it is only because that surplus-value already existed in them. In the second act, the reconversion of money-capital into

commodities (elements of production), the buyer does not realise any surplus-value. He merely inaugurates the production of surplus-value by the exchange of his money for means of production and labor-power. So far as these metamorphoses cost time of circulation‘a time, during which capital is not producing at all, least of all surplus-value‘ they limit the creation of values, and the surplus-value will express itself through the rate of profit precisely in an inverse ratio to the duration of the time of circulation. Merchant's capital, therefore, does not create any value or surplus-value, at least not directly. If it contributes toward shortening the time of circulation, it may help indirectly to increase the surplus-value produced by the industrial capitalists. To the extent that it helps to expand the market and promotes the division of labor between capitals, thereby enabling capital to work on a larger scale, its function enhances the productivity of the industrial capital and the accumulation of this capital. Inasmuch as it may shorten the time of circulation, it raises the ratio of surplus-value to the advanced capital, that is, the rate of profit. And to the extent that it confines a smaller portion of capital in the form of money-capital to the sphere of circulation, it increases that portion of capital which is engaged directly in production.

Notes for this chapter

38.

In order to be able to classify merchant's capital as a productive capital, Ramsay confounds it with the transportation industry and calls commerce "the transport of commodities from one place to another." (An Essay on the Distribution of Wealth, p. 19.) The same mistake was committed by Verri in his Meditazionisull' Economia Politica, § 4, and by Say in his Traite d'Economie Politique, I, 14, 15. In his Elements of Political Economy, J. P. Newman says: "In the existing economical arrangements of society, the very act which is performed by the merchant of standing between the producer and the consumer, advancing to the former capital and receiving products in return, and handing over these products to the latter, receiving back capital in return, is a transaction which both facilitates the economical process of the community, and adds value to the products in relation to which it is performed (P. 174)." The producer and the consumer thus save time and money through the intervention of the merchant. This service requires an advance of capital and labor, and must be rewarded, "since it adds value to the products, for the same products, in the hands of the consumers, are worth more than in the hands of the producers." And so commerce appears to him, as it does to Mr. Say, as "strictly an act of production" (P. 175). This view of Newman is fundamentally wrong. The use-value of a commodity is greater in the hands of the consumer than in those of the producer, because it is realised by the consumer. For the use-value of a commodity does not serve its end until this commodity enters the sphere of consumption. So long as it is in the hands of the producer, it exists

only potentially. But one does not pay twice for a commodity, one does not pay first for its exchange value, and then an extra price for its use-value. By paying for its exchange-value, I appropriate its use-value. And its exchange value is not in the least increased by transferring it from the hand of the producer or middleman to that of the consumer.

Part IV,

Volume III Chapter XVII COMMERCIAL PROFIT.

IV.XVII.1

WE have seen in volume II, that the mere functions of capital in the sphere of circulation‘the operations which the industrial capitalist must perform, first, in order to realise the value of his commodities, and secondly, in order to reconvert this value into elements of production, operations which promote the metamorphosis of the commodity-capital C'‘M‘C, the acts of selling and buying‘produce neither value nor surplus-value. It was rather seen that the time required for this purpose, objectively so far as the commodities, subjectively so far as the capitalist is concerned, creates barriers to the production of value and surplus-value. What is true of the metamorphosis of commodity-capital in general, is, as a matter of course, not in the least altered by the fact that a part of it may assume the shape of commercial

capital, or that the operations, by which the metamorphosis of commodity-capital is promoted, may become the particular business of a special class of capitalists, or the exclusive function of a portion of the money-capital. If selling and buying of commodities ‘and that is what the metamorphosis of the commodity-capital C'‘M‘C amounts to‘ by the industrial capitalists themselves do not create any value or surplus-value, they will certainly not become creators of value by being transferred from the industrial capitalists to other persons. Furthermore, if that portion of the total social capital, which must be continually on hand in order that the process of reproduction, instead of being interrupted, may proceed continuously‘if this money-capital does not create any value or surplus-value, then it cannot acquire the faculty to do so by being continually thrown into circulation for the performance of its function by some other section of the capitalists than the industrial capitalists. We have already indicated to what extent merchant's capital may be indirectly productive, and we shall discuss this point more at length later on.
IV.XVII.2

Commercial capital, then‘stripped of all heterogeneous functions, such as storing, expressing, transporting, distributing, arranging, which may be connected with its true function of buying in order to sell‘creates neither value nor surplus-value, but promotes only their realisation and thereby the actual exchange of commodities, their transfer from one hand to the other, the social circulation of matter. Nevertheless, since

the circulating phase of industrial capital is as much a phase of the process of reproduction as production is, the capital performing its functions independently in the process of circulation must yield the average annual profit just as well as the capital performing its functions in the different lines of production. If merchant's capital were to yield a higher percentage of average profit than industrial capital, then a portion of the industrial capital would transform itself into merchant's capital. If this capital were to yield a lower average profit, then the opposite process would take place. A portion of the merchant's capital would transform itself into industrial capital. No species of capital enjoys a greater facility to change its occupation than merchant's capital.
IV.XVII.3

Seeing that merchant's capital itself does not produce any surplus-value, it is evident that surplus-value appropriated by it in the shape of average profit must be a portion of the surplus-value produced by the total productive capital. But the question is now: How does the merchant's capital manage to appropriate its share of the surplus-value or profit produced by the productive capital?
IV.XVII.4

It is only outward semblance that commercial profit is a mere addition to, a nominal raise of the prices of commodities above their value.
IV.XVII.5

It is evident that the merchant can draw his profit only out of the price of the commodities sold by him, more even, that this profit, which he makes by the sale of his commodities, must be equal to the difference between his purchase price and his selling price, equal to the excess of the latter over the former.
IV.XVII.6

It is possible, that additional costs (costs of circulation) may enter into the commodities after their purchase and before their sale, and it is also possible, that this may not happen. If such costs should be added, it is evident that the excess of the selling price over the purchase price does not represent merely profit. In order to simplify the analysis, we assume first, that no such costs are added.
IV.XVII.7

For the industrial capitalist, the difference between the selling price and the purchase price of his commodities is equal to the difference between their price of production and their cost-price, or, looking upon the matter from the point of view of the total social capital, equal to the difference between the value of the commodities and their cost-price for the capitalists, and this again resolves itself into the difference between the total quantity of labor incorporated in them and the quantity of the paid labor incorporated in them. Before the commodities bought by the industrial capitalist are taken back to

market as saleable commodities, they pass through the process of production, in which that portion of their price which shall be realised as profit must be created. But it is different with the trading merchant. The commodities are in his hands only so long as they are in the process of circulation. He merely continues their sale, the realisation of their price begun by the productive capitalist, and therefore he does not cause them to pass through any intermediate process, in which they can once more absorb new surplus-value. While the industrial capitalist merely realises the previously produced surplus-value or profit by means of the circulation, the merchant must not only realise his profit in and by the circulation, but he must first make it there. This seems possible in no other way than that of selling the commodities bought by him from the industrial capitalist at their prices of production, or, from the point of view of the total commodity-capital, their values, above their prices of production, by making a nominal addition to these prices, in other words by selling the total commodity-capital above its value and pocketing this excess of their nominal value over their real value. In short, it seems that he would be selling them for more than they are worth.
IV.XVII.8

This method of raising prices seems easy to grasp. For instance, one yard of linen costs 2 sh. If I want to make 10% profit on my sales, I must add 1/10 to the price, I must sell one yard of linen at 2 sh. 2 2/5d. The difference between its actual price of production and its

selling price is then 2 2/5d. and this represents a profit of 10% on 2 sh. This amounts to my selling one yard of linen to the buyer at a price which is in reality the price of 1 1/10 yard. Or, what amounts to the same, it is as though I sold to the buyer only 10/11 of one yard for 2 sh. and kept 1/11 for myself. In fact, I might buy back 1/11 of one yard for 2 2/5 d., if the price of one yard is 2 sh. 2 2/5d. This would be but a round-about way of sharing in the surplus-value and surplus-product by a nominal raise in the price of commodities.
IV.XVII.9

This is the realisation of commercial profit by raising the price of commodities, as it appears at first glance on the surface. And it is indeed a fact that this whole conception of the rise of profit from a nominal raise in the price of commodities, or from their sale above their value, has its origin in the point of view of commercial capital.
IV.XVII.10

But on closer inspection it is quickly seen that this is a mere semblance, and that, assuming capitalist production to be the prevailing mode, commercial profit cannot be realised in this manner. (It is here always a question of averages, not of exceptions.) Why do we assume that the dealer in commodities can realise his profit of 10% on his commodities only by selling them 10% above their price of production? Because we had assumed that the producer of these

commodities, the industrial capitalist (who impersonates The producer before the outside world as the personification of industrial capital), had sold them to the dealer at their prices of production. If the prices paid by the dealer for commodities are equal to their prices of production, so that the price of production, or in the last instance the value, represents the cost-price for the merchant, then the excess of the latter's selling price over his purchase price‘and only this difference constitutes his profit‘must indeed be an excess of their commercial price over their price of production, so that in the last analysis the merchant would be selling all commodities above their values. But why did we assume that the industrial capitalist sells his commodities to the merchant at their prices of production? Or rather, what was the premise of that assumption? It was that the commercial capital did not share in the formation of the average rate of profit (and as yet we are dealing with merchant's capital only in so far as it is commercial capital.) We started necessarily from this premise in the discussion of the average rate of profit, first, because the commercial capital as such did not exist for us at that time; and secondly, because the average profit, and thus the average rate of profit, had to be first developed out of a mutual leveling of profits, or surplus-values, actually produced by the industrial capitals of the different spheres of production. But in the case of merchant's capital we are dealing with a capital which shares in the profit without participating in its production. Hence it now becomes necessary, to supplement our former presentation at this point.

Let us suppose that the total industrial capital advanced for one year is 720 c + 180 v = 900 (say million p.st.), and that s' = 100%. The product is then valued at 720 c + 180 v + 180 s. Now let us call this product, the produced commodity-capital, C. Its value, or its price of production (both are identical for the total social commodity-capital), is then 1080, and the rate of profit for the total social capital of 900 is 20%. These 20% constitute, according to our previous analyses, the average rate of profit, since the surplus-value is not calculated in this instance on this or that capital of some particular composition, but on the average composition of the total industrial capital. In short, C = 1,080, and the rate of profit = 20%. Now let us further assume that aside from these 900 of industrial capital, there are invested 100 of merchant's capital, which share in the profit, just as the industrial capital does, in proportion to their magnitude. According to our assumption, the total capital consists of 900 industrial + 100 commercial = 1,000, so that the commercial capital is 1/10 of the whole. Therefore it participates to the extent of 1/10 in the total surplus-value of 180, and by this means secures a profit at the rate of 18%. Actually, then, the profit remaining to be distributed among the other 9/10 of the total capital is only 162, which amounts likewise to 18% on the total capital of 900. In other words, the price at which C is sold by the owners of the industrial capital of 900 to the dealers is 720 c + 180 v + 162 s = 1,062. Now, if the dealer

adds his average profit of 18% on his capital of 100, he sells the commodities at 1,062 + 18 = 1,080, which is their price of production, or, from the point of view of the total commodity-capital, their value, although he makes his profit only in and by the circulation, and only by an excess of his selling price over his purchase price. But nevertheless he does not sell the commodities above their value, nor above their price of production, just because he had bought them from the industrial capitalist below their value, or below their price of production.
IV.XVII.12

The merchant's capital, then, plays a determining role in the formation of the average rate of profit in proportion to its pro rata magnitude in the total capital. Hence if we say in the cited case that the average rate of profit is 18%, it would be 20%, were it not for the fact that 1/10 of the total capital is merchant's capital, which implies a reduction of the rate of profit by 1/10.
IV.XVII.13

This requires also a more precise and detailed definition of the price of production. By price of production we mean, now as before, that price of the commodities, which is equal to their cost (the value of the constant + variable capital contained in them) + the average profit. But this average profit is now differently determined. It is determined by the total profit produced by the total productive capital,

but it is not calculated merely on this total productive capital. It is not calculated, as first assumed, so that, if the total productive capital were 900, and the profit 180, the average rate of profit would be 180/ 900 = 20%. It is rather calculated on the total productive + the merchant's capital, so that, if the total capital is 900 productive + 100 merchant's capital, the average rate of profit is 180/ 1000 = 18%. The price of production is, therefore, equal to k (the costs) + 18, instead of k + 20. In the average rate of profit, the share of the total profit falling to the merchant's capital is included. The actual value, or price of production, of the total commodity-capital is, therefore, k + p + m (where m indicates profits in merchant's capital). The price of production, or the price at which the industrial capitalist as such sells his commodities, is thus smaller than the actual price of production of commodities. Or, looking upon the matter from the point of view of the total commodity-capital, the prices at which the class of industrial capitalists sell are lower than the values of commodities. Thus, in the above case, 900 costs + 18% on 900, or 900 + 162 = 1,062.
IV.XVII.14

It follows, then, that the merchant, when selling a commodity at 118 for which he paid 100 does indeed raise the price by 18%. But since this commodity, for which he paid 100, is really worth 118, he does not sell it above its value. We shall retain the price of production as more closely defined above. Then it is evident, that the profit of the industrial capitalist is equal to the excess of the price of production of

his commodities over their cost-price, and that the commercial profit, as distinguished from this industrial profit, is equal to the excess of the selling price over the price of production of the commodities, which is their cost-price for the merchant; but that the actual price of the commodities is equal to their price of production plus the commercial profit. Just as the industrial capital realises only such profits as exist previously in the commodities as surplus-value, so the merchant's capital realises profits only because the entire surplus-value, or profit, has not yet been realised in the price charged for the commodities by the industrial capitalist.*39 The selling price of the merchant, then, stands above his purchase price, not because the former stands above the total value, but because the purchase price stands below this value.
IV.XVII.15

The merchant's capital participates in the compensation of the surplus-value to an average profit, although it does not take part in its production. So the average rate of profit implies that general deduction from surplus-value which falls to the share of merchant's capital, a deduction from the profit of the industrial capital.
IV.XVII.16

From the foregoing it follows:

1) The larger the merchant's capital in proportion to the industrial capital, the smaller is the rate of industrial profit, and vice versa.

2) It was seen in the first part, that the rate of profit is always lower than the rate of the actual surplus-value, that it always expresses the intensity of exploitation too low. In the above case, 720 c + 180 v + 180 s means a rate of surplus-value of 100%, and a rate of profit of only 20%. And if the merchant's capital is included in the calculation, then the difference between the rate of surplus-value and the rate of profit becomes still greater, the latter being only 18% in the present case. In that case, the average rate of profit of the direct exploiter of labor expresses the rate of profit in lower figures than it actually represents.

IV.XVII.17

Assuming all other circumstances to remain the same, the relative volume of the merchant's capital (excepting the small dealer, who represents a hermaphrodite form) will be in a reverse ratio to the velocity of its turn-over, or in a reverse ratio to the energy of the process of reproduction in general. In the process of scientific analysis, the formation of an average rate of profit appears to take its departure from the industrial capitals and their competition, and only later on does it seem to be corrected, supplemented, and modified by the intervention of merchant's capital. But in the course of historical events, the process is reversed. It is the commercial capital, which

first determines the prices of commodities more or less by their values, and it is the sphere of circulation, while promoting the process of reproduction, which first affords an opportunity for the formation of an average rate of profit. The commercial profit originally determines the industrial profit. Not until the capitalist mode of production has asserted itself and the producer himself has become a merchant, is the commercial profit reduced to that aliquot part of the total surplus-value, which falls to the share of the merchant's capital as an aliquot part of the total capital engaged in the social process of reproduction. IV.XVII.18

In the analysis of the supplementary compensation of profit through the intervention of the merchant's capital it was found that no additional element for the advanced money-capital entered into the value of commodities, and that the addition to the price, by which the merchant makes his profit, was merely equal to that portion of the value of commodities, which the productive capital did not calculate, but rather left out of calculation in the price of production. The case of this money-capital is similar to that of the fixed capital of the industrial capitalist, which is not all consumed and does not pass as an element into the value of commodities. By the purchase price which the merchant pays for the commodity-capital, he replaces its price of production, M, in money. His own selling price, as we have previously shown, is equal to $M + \Delta M$, and this ΔM stands for the addition to the price of commodities determined by the average rate

of profit. By selling these commodities, he recovers together with this ΔM his original money-capital, which he advanced for their purchase. Here, then, we see once more that his money-capital is nothing else but the commodity-capital of the industrial capitalist transformed into money-capital, and this change does not affect the magnitude of the volume of this commodity-capital any more than a direct sale to the ultimate consumer instead of the merchant would. It merely anticipates payment by the consumer. However, this is correct only on the condition, which we had hitherto assumed, that the merchant has no expenses, or that he need not advance any fixed or circulating capital during the process of metamorphosis of the commodities, of buying and selling, aside from the money-capital which he must advance for the purchase of the commodities from the producer. But this is not so in reality, as we have seen in the analysis of the costs of circulation, volume II, chapter VI. These costs of circulation represent either expenses, which the merchant has to reclaim from the other agents of the circulation, or expenses, which are due directly to his specific business.
IV.XVII.19

No matter what may be the character of these costs of circulation‘ whether they arise from the purely mercantile nature of the business, or whether they belong to the specific costs of circulation of the merchant, or whether they represent items, which are charges for subsequent processes of production added within the process of

circulation, such as expressage, transportation, storage, etc.‘they always require that the merchant should have, aside from his advanced money-capital, some additional capital for the purchase and payment of such means of circulation. To the extent that this element of cost consists of circulating capital, it passes wholly as an additional element into the selling price of the commodities; to the extent that it consists of fixed capital, it is transferred in proportion to its wear and tear. It is, however, an element, which forms a nominal value, even if it does not add any real value to the commodities. Such nominal values, which do not add any real value to the commodities, are the purely mercantile costs of circulation. But whether fixed or circulating, the entire additional capital participates in the formation of the general rate of profit.
IV.XVII.20

The purely commercial costs of circulation (that is, excepting the costs of transportation, shipping, storage, etc.) resolve themselves into the costs required for the purpose of realising the value of commodities, by transforming it either from commodities into money, or from money into commodities, by means of exchange. We leave entirely out of consideration any processes of production, which may eventually continue during the process of circulation, and which may exist separately from the merchant's business. In fact, the actual transport industry and shipping may be, and are, lines of occupation entirely separated from the merchant's business, and the purchaseable or

saleable commodities may be stored in warehouses or other public sheds, and the cost of storage, so far as it has to be advanced by the merchant, may be charged up to him by other people. All this becomes apparent in commerce on a large scale, in which the merchant's capital assumes its purest form, unalloyed by other functions. The express owner, the railroad director, the ship owner, are not "merchants." The costs which we consider here are those of buying and selling. We have already remarked in another place that these resolve themselves into accounting, bookkeeping, marketing, correspondence, etc. The constant capital required for this purpose consists of offices, paper, postage, etc. The other costs resolve themselves into variable capital advanced for the employment of mercantile wage workers. (Expressage, cost of transportation, advances for duties, etc., may be considered as being advances made by the merchant for the purchase of commodities and entering into the purchase price to be paid by him.)
IV.XVII.21

All these costs are not incurred in the production of the use-value of the commodities, but in the realisation of their exchange value. They are pure costs of circulation. They do not enter into the strict process of production, but since they enter into the process of circulation they are part of the total process of reproduction.
IV.XVII.22

The only portion of these costs that interests us here is that advanced as variable capital. (Furthermore the following questions remain to be analysed: 1) How is the law, that only socially necessary labor enters into the value of commodities, enforced in the process of circulation? 2) How does accumulation represent itself in the case of merchant's capital? 3) How does merchant's capital function in the actual process of reproduction of society as a whole?)
IV.XVII.23

These costs are due to the economic form of the product, that of a commodity.
IV.XVII.24

Seeing that the labor time lost by the industrial capitalists themselves while directly selling commodities to one another, in other words, the circulation time of the commodities, does not add any value to these commodities, it is evident that this labor time is not endowed with any other character by transferring it from the industrial capitalist to the merchant. The conversion of commodities (products) into money, and of money into commodities (means of production) is a necessary function of industrial capital and, therefore, a necessary operation for the capitalist, who is but personified capital endowed with his consciousness and will. But these functions do not create any value, nor do they produce any surplus-value. The merchant, by performing these operations, by further promoting the functions of capital in the

sphere of circulation after the productive capitalist has ceased to do so, merely steps into the shoes of the industrial capitalist. The labor time required for these operations is devoted to certain necessary operations in the process of reproduction of capital, but it adds no value to it. If the merchant did not perform these operations (did not expend the labor time required for them), he would not be using his capital as a circulation agent of industrial capital; he would not be continuing the interrupted function of the industrial capitalist, and consequently he could not participate as a capitalist, in proportion to his advanced capital, in the mass of profit produced by the class of industrial capitalists. In order to share in the mass of surplus-value, in order to expand the value of his advanced capital, the commercial capitalist need not employ any wage workers. If his business is small, he may be the only worker in it. But his wages are derived from that portion of the social profit which falls to his share through the difference between the purchase price paid by him for commodities and their actual price of production.
IV.XVII.25

Under these circumstances, and assuming the merchant's advanced capital to be small, the profit realised by him may not be a bit larger, or may even be smaller, than the wages of one of the better paid skilled wage workers. In fact, there are employed, side by side with him, many commercial agents of the industrial capitalist, such as buyers, sellers, travelers, who receive the same or a higher income

than he, either in the form of wages, or in the form of a check upon the profit (percentages, tantièmes) made by each sale. In the first case, the merchant pockets the mercantile profit as an independent capitalist; in the other case, the salesman, the wage laborer of the industrial capitalist, receives a portion of the profit, either in the form of wages, or in the form of a proportional share in the profit of the industrial capitalist, whose direct agent he is, while his principal pockets both the industrial and the commercial profit. But in all these cases the income of the circulation agent is derived from the merchant's profit, even though he may regard it merely as wages paid to him for the performance of his labor, or, where it does not appear in this light, though his profit may not be any larger than the wages of a better paid wage laborer. This follows from the fact that his labor is not labor producing any values.
IV.XVII.26

The prolongation of the act of circulation implies for the industrial capitalist 1) a personal loss of time, to the extent that it prevents him from performing his own function as a manager of the productive process; 2) a prolonged stay of his product, in the form of money or commodities, in the process of circulation, that is, a process, in which it does not produce any value and by which the direct process of production is interrupted. If this process is not to be interrupted, production must either be restricted, or more money-capital must be advanced, in order that the process of production may proceed on the

same scale. This means every time that either a smaller profit is made by the capital hitherto invested, or that additional money-capital must be advanced in order to make the same profit. All this remains unchanged, when the merchant takes the place of the industrial capitalist. Instead of the industrial capitalist, the merchant then spends this prolonged time in the process of circulation; instead of the industrial capitalist, the merchant advances additional capital for the circulation; or, what amounts to the same, instead of a large portion of the industrial capital straying off continually into the process of circulation, the capital of the merchant is wholly tied up in it; and instead of the industrial capitalist making a smaller profit, he must yield a portion of his profit wholly to the merchant. So long as merchant's capital remains within the boundaries, in which it is necessary, the only difference is that this division of the functions of capital reduces the time exclusively needed for the process of circulation, that less additional capital is advanced for this purpose, and that the loss of the total profits represented by the profits of merchant's capital is smaller than it would have been otherwise. If in the above example, a capital of 720 c + 180 v + 180 s, assisted by a merchant's capital of 100, leaves a profit of 162, or 18% for the industrial capitalist, or, in other words, implies a deduction of 18, then the additional capital required without the assistance of this independent merchant's capital would probably be 200, and the total advance to be made by the industrial capitalist would be 1,100 instead

of 900, which, with a surplus-value of 180, would mean a rate of profit of only 16 4/11%.
IV.XVII.27

Now, if the industrial capitalist, who acts as his own merchant, advances not only the additional capital with which he buys new commodities, before his product in process of circulation has been reconverted into money, but also capital (office expenses and wages for commercial laborers) for the realisation of the value of his commodity-capital, or, in other words, for the process of circulation, then these costs form additional capital, but they produce no surplus-value. They must be made good out of the value of the commodities. For a portion of the value of these commodities must once more be converted into these circulation costs; and no additional surplus-value is created thereby. So far as this concerns the total capital of society, it means that a portion of it must be set aside for secondary operations, which are no part of the process of creating value, and that this portion of the social capital must be continually reproduced for this purpose. This reduces the rate of profit for the individual capitalist and for the entire class of industrial capitalists, a result, which follows from every addition of auxiliary capital, whenever such capital is required for the purpose of setting in motion the same mass of variable capital.
IV.XVII.28

To the extent that these additional costs connected with the business of circulating are transferred from the shoulders of the industrial to those of the commercial capitalist, the same reduction in the rate of profit takes place, only to a smaller extent and in another way. The matter now assumes the form that the merchant advances more capital than would be necessary, if these costs did not exist, and that the profit on this additional capital increases the amount of the commercial profit, so that the merchant's capital shares with the industrial capital to a greater extent in the leveling of the average rate of profit, thereby lowering the average profit. If in our above examply 50 additional capital are advanced for those costs together with a merchant's capital of 100, then the total surplus-value of 180 is distributed over a productive capital of 900 plus a merchant's capital of 150, a total of 1,050. The average rate of profit then falls to 17 1/7%. The industrial capitalists sells his commodities to the merchant at 900 + 154 2/7 = 1,054 2/7, and the merchant sells them at 1,130, namely 1080 + 50 for costs which he must recover. For the rest it must be assumed that the division between merchant's and industrial capital is accompanied by a centralisation of the expenses of commerce and, consequently, by their reduction.
IV.XVII.29

The question is now: How is it with the commercial wage workers employed by the commercial capitalist, in this case by the merchant?
IV.XVII.30

In one respect, such a commercial laborer is a wage laborer like others. For, in the first place, his labor-power is bought with the variable capital of the merchant, not with the money spent by him as revenue, and consequently this labor-power is not bought for private service, but for the creation of value by means of the capital advanced for it. In the second place, the value of this labor-power, and thus his wages, are determined in the same way as those of other wage workers, namely by the cost of production and reproduction of his specific labor-power, not by the product of his labor.
IV.XVII.31

However, we must make the same distinction between the commercial wage worker and the wage workers directly employed by the industrial capital which we found existing between the industrial capital and merchant's capital, and thus between the industrial capitalist and the commercial capitalist. Since the merchant, as a mere agent of circulation, produces neither value nor surplus-value (for the additional value, which he adds to the commodities by his expenses, resolves itself into an addition of previously existing values, although the question here poses itself: How does he preserve the value of his constant capital?) it follows that the mercantile laborers employed in these same functions cannot very well create any direct surplus-value for him. Here, as in the case of the productive laborers, we assume

that wages are determined by the value of labor-power, and that the merchant does not make money by depressing wages, so that he does not allow in his accounts for any advance of wages which he paid only in part, in other words, that he does not make money by cheating his clerks.
IV.XVII.32

The difficulty in the case of the mercantile wage workers is by no means that of explaining the way in which they produce any direct profits for their employer, even though they do not create any direct surplus-value (of which profit is but a changed form.) This part of the question has already been solved by the general analysis of commercial profits. Just as the industrial capital makes profits by selling labor embodied and realised in commodities for which it has not paid any equivalent, so the merchants' capital makes profits by not paying the productive capital for all the unpaid labor incorporated in the commodities (that is, commodities in so far as the capital invested in their production functions as an aliquot part of the total industrial capital), while in selling it demands payment for this unpaid portion still contained in the commodities and not paid for by itself. The relation of the merchant's capital to the surplus-value is different from that of the industrial capital. The industrial capital produces surplus-value by the direct appropriation of the unpaid labor of others. The merchant's capital, on the other hand, appropriates a portion of

this surplus-value by having this portion transferred from the industrial capital to itself.
IV.XVII.33

It is only by its function of realising values that the merchant's capital serves in the process of reproduction as capital and in this capacity gets a share of the surplus-value produced by the total capital. The mass of profits depends for the individual merchant on the mass of capital, which he can invest in this process, and he can use so much more of it in buying and selling, the more unpaid labor his clerks perform. The function itself, by virtue of which the money of the merchant capitalist is capital, is largely performed by his employes. The unpaid labor of his clerks, while it does not create any surplus-value, at least appropriates surplus-value for him, which amounts to the same thing so far as results on his capital go. This unpaid labor is for him, therefore, a source of profit. Otherwise the mercantile business could never be carried on capitalistically, on a large scale.
IV.XVII.34

Just as the unpaid labor of the laborer of the productive capital creates surplus-value for it in a direct way, so the unpaid labor of the commercial wage workers secures a share of this surplus-value for the merchant's capital.
IV.XVII.35

Here is the difficulty: Seeing that the labor time and the labor of the merchant himself do not create any value, but only secure for him a share of already produced surplus-value, how is it with the variable capital, which he invests in the purchase of commercial labor-power? Must this variable capital be included in the expense account of advanced merchant's capital? If not, then it seems to be in contradiction with the law of the compensation of the average rate of profit; for where is there a capitalist who would advance 150, if he could place only 100 in account? If yes, it seems to be in contradiction with the nature of merchant's capital, since this class of capital does not act in the capacity of capital by setting in motion the labor of others, as the industrial capital does, but rather by performing its own work, that is, the process of buying and selling, and only for this and by this means does it transfer a portion of the surplus-value produced by the industrial capital to itself.
IV.XVII.36

(Therefore the following points must be analysed: the variable capital of the merchant; the law of necessary labor in circulation; the way in which the merchant's labor preserves the value of his constant capital; the role of merchant's capital in the total process of reproduction; and finally, the two-fold materialisation in commodity-capital and money-capital on one side, and in commercial capital and financial capital on the other.)
IV.XVII.37

If every merchant had only as much money as he is personally able to turn over by his own labor, there would be an infinite dissociation of merchant's capital. This dissociation would increase to the extent that productive capital, in the forward march of the capitalist mode of production, would produce and operate on a larger scale. The disproportion between the two classes of capital would increase. In proportion as capital in the sphere of production would be centralised, it would be decentralised in the sphere of circulation. The purely commercial business of the industrial capitalist, and thus his purely commercial expenses, would be infinitely expanded thereby, for he would have dealings with 1,000 capitalists at a time instead of 100. In this way, a large part of the advantage of the independent organisation of merchant's capital would be lost. Not only the purely commercial expenses, but also the other costs of circulation, sorting, expressage, etc., would grow. This applies to the industrial capital. Now let us consider the merchant's capital. In the first place, let us look at the purely commercial labors. It does not require more time to figure with large than with small numbers. But it costs ten times as much time to make 10 purchases at 100 p.st. each as it does to make one purchase at 1,000 p.st. It costs ten times as much correspondence, paper, postage, to carry on a correspondence with 10 small merchants as it does with one large merchant. A limited division of labor in a commercial office, in which one keeps books, another has charge of the treasury, a third carries on the correspondence, one

man buys, another sells, another travels, etc., saves immense quantities of labor time, so that the number of workers employed in wholesale commerce stand in no proportion to the comparative size of the business. This is so, because in commerce much more than in industry the same function, whether performed on a large or a small scale, costs the same labor time. For this reason, concentration appears historically in the merchant's business before it shows itself in the industrial workshop. There are furthermore the expenses for constant capital. 100 small offices cost incomparably more than one large office, 100 small warehouses more than one large one, etc. The costs of transportation, which enter into the accounts of commercial business at least as advances, grow with this dissociation.
IV.XVII.38

The industrial capitalist would have to spend more for labor and circulation in the commercial part of his business. The same merchant's capital, when distributed among many small capitalists would require more laborers for the performance of its functions, on account of this dissociation, and, besides, more merchant's capital would be needed in order to turn over the same commodity-capital.
IV.XVII.39

Let us designate the entire merchant's capital directly invested in the purchase and sale of commodities by B, and the corresponding variable capital invested in wages of commercial help by b. Then B +

b is smaller than it would be, if every merchant had to worry along without any assistance and without investing any capital in b. However, we have not yet overcome all difficulties.
IV.XVII.40

The selling price of the commodities must suffice, 1) to pay the average profit on B + b. This explains itself by virtue of the fact that B + b represents a reduction of the original B and a smaller merchant's capital than would be required without b. But this selling price must also suffice, 2) to cover not only the additional profit on b, but to recover also the paid wages, the variable capital of the merchant. There is the difficulty. Does b form a new constituent of the price, or is it merely a part of the profit made by means of B + b, which takes on the appearance of wages only so far as the mercantile wage worker is concerned, and simply replaces the variable capital from the point of view of the merchant? In this last case, the profit made by the merchant on his advanced capital B + b would be only equal to the profit due to B according to the general rate, plus b, which he pays out in the form of wages without getting a profit on it.
IV.XVII.41

The crux of the matter is, indeed, to find the limits (mathematically speaking) of b. Let us first define the difficulty exactly. Let us designate the capital invested directly in buying and selling

commodities by B, the constant capital (expenses of objective materials of commerce) consumed in this function by K, and the variable capital invested by the merchant by b.
IV.XVII.42

The recovery of B offers no difficulties. It simply represents for the merchant the realised purchase price, the price of production for the manufacturer. The merchant pays this price and in reselling he recovers B as a part of his selling price. Apart from this B, he also receives a profit on B, as we have previously explained. For instance, let the commodities cost 100 p.st. The profit on this may be 10%. In that case the commodities are sold at 110. These commodities cost previously 100, and the merchant's capital of 100 merely makes an additional 10 out of them.
IV.XVII.43

Now let us look at K. It will at most be as large as, but in fact smaller, than that portion of the constant capital, which the producer would have to invest in the department of buying and selling, and which would be an addition to the constant capital invested by him in direct production. However, this portion must be continually recovered by the price of the commodities, or, what amounts to the same, a corresponding portion of the commodities must be continually expended in this form, must, from the point of view of the total capital of society, be continually reproduced in this form. This portion

of the advanced constant capital would reduce the rate of profit just as well as the entire mass of it invested in production itself. To the extent that the industrial capitalist gives up the commercial part of his business to the merchant, he is no longer compelled to advance this part of the capital. The merchant advances it in his stead. In a way he does this but nominally, since a merchant neither produces nor reproduces the constant capital consumed by him (the cost of the objective materials of commerce). Its production appears as a specific business, or at least as a part of the business, of some industrial capitalists, who play a similar role as those, who supply the constant capital for the producers of necessities of life. The merchant recovers this constant capital and his profit on it. Both things reduce the profit of the industrial capitalist to that extent. But owing to the economies and concentration which come with a division of labor, he loses less profits than he would, if he had to advance his own capital for this purpose. The reduction of the rate of profit is smaller, because the advanced capital is smaller.
IV.XVII.44

So far, then, the selling price is made up of B + K + profits on B + K. This portion of the selling price offers no further difficulties. But now b, the variable capital advanced by the merchant, enters into this consideration.
IV.XVII.45

The selling price is then made up of B + K + b + profits on B + K + profits on b.
IV.XVII.46

B makes good merely the purchase price and adds nothing to this price but the profit on B. K adds K itself plus a profit on K; but K + profit on K, the circulation cost advanced in the form of constant capital plus a corresponding average profit, would be larger in the hands of the industrial capitalist than it is in those of the merchant. The reduction of the average profit assumes this form: It is as though the full average profit had been calculated, after deducting B + K from the advanced industrial capital, but the deduction from this average profit for B + K paid to the merchant, so that this deduction appears as the profit of a particular class of capital, of merchant's capital.
IV.XVII.47

But it is different with b + profits on b, or in the present case, where we have assumed a rate of profit of 10%, with b + (1/10)b. Here lies the real difficulty.
IV.XVII.48

What the merchant buys with b, is according to our assumption nothing but commercial labor, in other words, labor required for the promotion of the functions of circulating the capital, of performing the

acts C‘M and M‘C. But this commercial labor is that labor, which is generally necessary, in order that any capital may perform the functions of commercial capital, the conversion of commodity-capital into money and money into commodities. It is labor which realises values, but does not create any. And only to the extent that a capital performs this function‘that a capitalist performs these operations with his capital‘does this capital serve as commercial capital and participate in the regulation of the general rate of profit, that is, draw its dividend out of the total profit. But in b + profit on b, it looks as though labor were being paid, in the first place (for it makes no difference, whether the industrial capitalist pays the merchant for his own labor or the clerk employed by the merchant for his), and in the second place, as though it contained a profit on labor, which the merchant himself has to perform. The merchant's capital gets in the first place its b refunded, and in the second place a profit on it. This arises from the fact that it demands pay, in the first place, for work, which it performs in its capacity as merchant's capital, and that it receives, in the second place, a profit in its capacity of capital, for performing work, which is remunerated in the profit as the function of capital. This, then, is the question which we have to solve.
IV.XVII.49

Let us assume that B = 100, b = 10, and the rate of profit = 10%. We place K = O, in order to leave this element of the purchase price, which does not belong here and has already been accounted for, out

of consideration. In that case, the selling price would be B + p + b + p (or B + Bp' + b + bp'); where p' stands for the rate of profit. This means in figures 100 + 10 + 10 + 1 = 121.
IV.XVII.50

Now, if b would not be invested by the merchant in wages‘since b is paid only for commercial labor, for labor required for the realisation of the value of commodity-capital thrown on the market by industrial capital‘then the condition of the matter would be the following: In order to buy or sell anything for B = 100, the merchant would spend his time, and we will assume, that this is the only time at his disposal. The commercial labor represented by b, or 10, if paid for by a profit instead of wages, would presuppose another commercial capital of 100, which, at 10%, would be equal to b = 10. This second B of 100 would not be added to the price of commodities, but the 10% would. We should then have two operations with 100, making 200, that would buy commodities at 200 + 20 = 220.
IV.XVII.51

Since merchant's capital is nothing but an independent form of a portion of industrial capital engaged in the process of circulation, all questions referring to it must be solved by representing the problem at first in that form, in which the phenomena peculiar to merchant's capital do not yet appear in an independent shape, but still in direct connection with industrial capital as one of its subdivsions. As an

office separate from the workshop, the mercantile capital serves continually in the process of circulation. It is here that we must first analyse the b under consideration‘in the office of the industrial capitalist himself.
IV.XVII.52

The office is from the outset always infinitesimally small compared to the industrial workshop. For the rest, it is clear that the commercial operations increase to the extent that the scale of production is enlarged. These are operations, which must be continually performed for the circulation of the industrial capital, in order to sell the product existing in the shape of commodities, to convert the money so received once more into means of production, and to keep account of the whole. The calculation of prices, bookkeeping, managing funds, carrying on the correspondence, all these belong under this head. The more developed the scale of production is, the greater, if not in proportion, will be the commercial operations of industrial capital, and consequently the labor and other costs of circulation for the realisation of value and surplus-value. This necessitates the employment of commercial wage workers, who form the office staff. The expenses for these, although incurred for wages, differ from the variable capital invested in the purchase of productive labor. It increases the expenses of the industrial capitalist, the mass of capital to be advanced, without increasing the direct surplus-value. For these expenses are made for labor, which is employed only for the realisation of already created

values. Like every expense of this kind, these expenses reduce the rate of profit, because the advanced capital increases, but not the surplus-value. If the surplus-value s remains constant, while the advanced capital C increases to C + ΔC, then the place of the rate of profit s/C is taken by the smaller rate of profit s/(C + ΔC). For this reason, the industrial capitalist endeavors to limit these expenses of circulation to a minimum, just as he does with his expenses for constant capital. Hence industrial capital does not maintain the same relations to its commercial wage laborers that it does to its productive wage laborers. The greater the number of productive wages laborers employed under otherwise equal circumstances, the more voluminous is production, the greater the surplus-value or profit. On the other hand, the larger the scale of production, the greater the quantity of value and surplus-value to be realised, the greater, in other words, the produced commodity-capital, the larger grow the absolute office expenses, even if they do not grow relatively, and give rise to some kind of division of labor. To what extent profit is the first condition for these expenses, is shown among other things by the fact, that with the increase of commercial salaries a part of them is frequently paid by a share in the profits. It is in the nature of things that labor consisting merely of intermediary operations, which are connected either with a calculation of values, or with their realisation, or with the reconversion of the realised money into means of production, a labor whose amount depends on the quantity of produced values about to be realised, should not act as cause of the respective magnitudes and

masses of these values, as directly productive labor does, but as their result. The case of the other costs of circulation is similar. In order that plenty may be measured, weighed, wrapped, transported, plenty must be supplied. The amount of labor consumed in packing, transporting, etc., depends on the quantity of the commodities which are the objects of its activity, not vice versa.
IV.XVII.53

The commercial laborer does not produce any surplus-value directly. But the value of his labor is determined by the value of his labor-power, that is, of its costs of production, while the application of this labor-power, its exertion, expression, and consumption, the same as in the case of every other wage laborer, is by no means limited by the value of his labor-power. His wages are therefore not necessarily in proportion to the mass of profits, which he helps the capitalist to realise. What he costs the capitalist and what he makes for him are two different things. He adds to the income of the capitalist, not by creating any direct surplus-value, but by helping him to reduce the costs of the realisation of surplus-value. In so doing, he performs partly unpaid labor. The commercial laborer, in the strict meaning of the term, belongs to the better paid classes of wage workers, he belongs to the class of skilled laborers, which is above the average. However, wages have a tendency to fall, even in proportion to the average labor, with the advance of the capitalist mode of production. This is due to the fact that in the first place, division of labor in the

office is introduced; this means that only a onesided development of the laboring capacity is required, and that the cost of this development does not fall entirely on the capitalist, since the ability of the laborer is developed through the exercise of his function and increases so much faster, the more onesidedly the division of labor develops. In the second place, the necessary preparation, such as the learning of commercial details, languages, etc., is more and more rapidly, easily, generally, cheaply reproduced with the progress of science and popular education, to the extent that the capitalist mode of production organises the methods of teaching, etc., in a practical manner. The generalisation of public education makes it possible to recruit this line of laborers from classes that had formerly no access to such education and that were accustomed to a lower scale of living. At the same time this generalisation of education increases the supply and thus competition. With a few exceptions, the labor-power of this line of laborers is therefore depreciated with the progress of capitalist development. Their wages fall, while their ability increases. The capitalist increases the number of these laborers, whenever he has more value and profits to realise. The increase of this labor is always a result, never a cause of the augmentation of surplus-value.*40

IV.XVII.54

We see, then, that a duplication takes place here. On the one hand, the functions of commodity-capital and money-capital (which later become merchant's capital) are general forms assumed by industrial capital. On the other hand, particular capitals, and therefore a particular series of capitalists, are exclusively devoted to these functions. And these functions develop into specific spheres of enhancing the value of capital.
IV.XVII.55

The commercial functions and expenses of circulation become independent only in the case of the mercantile capital. That side of industrial capital, which is devoted to the circulation, exists not only in its continuous shape of commodity-capital and money-capital, but also in the office alongside of the workshop. But it assumes an independent existence in the mercantile capital. For this capital, its office is its only workshop. The portion of capital employed in the form of expenses of circulation appears much larger in the business of the large merchant than in that of the industrial capitalist, because the offices connected with every industrial workshop are concentrated in the hands of a few merchants, and so is at the same time that portion of the capital, which would have to be invested for this purpose by the entire class of industrial capitalists. These merchants take care of the circulation and provide for the expenses incidental to its continuation.
IV.XVII.56

For the industrial capital, the expenses of circulation appear as dead expenses, and so they are. For the merchant they appear as a source of his profit, which is proportional to the level of the average rate of profit, whose existence is assumed. The investment to be made by the mercantile capital for these expenses of circulation is, therefore, a productive investment. And for this reason the commercial labor which it buys is likewise immediately productive for it.

Notes for this chapter

39.
John Bellers.
40.
How well this prognosis of the fate of the commercial proletariat, written in 1865, has stood the test can be corroborated by hundreds of German clerks, who, trained in all commercial operations and acquainted with three or four languages, in vain offer their services in London City at 25 shillings per week, far below the wages of a good machine maker. A blank of two pages in the manuscript indicates, that this point was to be further elaborated. For the rest, we refer the reader to volume II, chapter VI (The Expenses of Circulation), where various things belonging under this head have already been discussed.‘F. E.

Part IV,

Volume III Chapter XVIII. THE TURN-OVER OF MERCHANT'S CAPITAL. THE PRICES.

IV.XVIII.1

THE turn-over of industrial capital is the combination of its time of production and time of circulation. It comprises, therefore, the process of production as a whole. The turn-over of merchant's capital, on the other hand; being in reality nothing but a movement of commodity-capital in an independent form, represents merely the first phase in the metamorphosis of commodities, C‘M, as a movement of some capital returning to itself. M‘C, C‘M, is the turn-over of merchant's capital from the mercantile point of view. The merchant buys, converts his money into commodities, then sells, converts the same commodities back into money. And so forth in continuous repetitions. Within the circulation, the metamorphosis of industrial capital always presents itself in the form of C'‘M‘C''; the money realised by the sale of the produced commodities C' is used for the purchase of new means of production C''. This amounts to a practical exchange of C' for C'', and the same money thus changes hands twice. Its movement acts as an intermediary between two different kinds of commodities C' and C''. But in the case of the merchant, it is the same commodity,

which changes hands twice in the process M‘C‘M'. It merely promotes the reflux of his money to him.
IV.XVIII.2

For instance, if a certain merchant's capital is 100 p.st., and the merchant buys for these 100 p.st. commodities and sells these commodities for 110 p.st., then his capital of 100 p.st. has completed one turn-over, and the number of its turn-overs in one year depends on the number of times which it can repeat this movement M‘C‘M'.
IV.XVIII.3

We leave entirely out of consideration at this point those expenses, which may be concealed in the difference between the purchase price and the selling price, since these expenses do not alter in any way the form, which we are now analysing.
IV.XVIII.4

The number of turn-overs of a certain merchant's capital shows evidently some analogy to the repeated cycles of money in its capacity as a mere medium of circulation. Just as the same dollar, which circulates ten times, buys ten times its value in commodities, so the same money-capital of the merchant, when turned over ten times, buys ten times its value in commodities, or realises a total commodity-capital of ten times its value, for instance a merchant's capital of 100 a value of 1,000. But there is this difference: In the circulation of

money as a medium of circulation, it is the same piece of money, which passes through different hands and performs repeatedly the same function, thereby making up for the limited number of the circulating pieces of money by the velocity of its circulation. But in the case of the merchant it is the same money-capital, the same money-value regardless of the pieces of money of which it may be composed, which repeatedly buys and sells the amount of its value, thereby returning repeatedly to the same hands from which it departed as M + Δ M, value plus surplus-value. This is characteristic of its turn-over as a turn-over of capital. It always withdraws more money from circulation than it threw into it. By the way, it is a matter of course that an accelerated turn-over of merchant's capital (in which the function of money as a means of payment likewise predominates whenever the credit system is developed) is accompanied by a more rapid circulation of the same quantity of money.
IV.XVIII.5

A repeated turn-over of commercial capital, however, never expresses anything else but a repetition of buying and selling; while a repeated turn-over of industrial capital expresses the periodicity and renovation of the entire process of reproduction (which includes the process of consumption). For the merchant's capital, this appears merely as an outward condition. The industrial capital must continually throw commodities on the market and withdraw others from it, in order that

the turn-over of merchant's capital may continue rapidly. If the process of reproduction proceeds slowly in general, then the turn-over of merchant's capital does likewise. Now, it is true that the merchant's capital promotes the turn-over of the productive capital, but only in so far as it shortens the time of circulation of the latter. It has no direct influence on the time of production, which is also one of the limits of the time of turn-over of industrial capital. This is the first barrier for the turn-over of merchant's capital. In the second place, aside from the barrier formed by reproductive consumption, the turn-over of the merchant's capital is ultimately limited by the velocity and volume of individual consumption, since the entire part of commodity-capital which passes into the fund for consumption depends on that. IV.XVIII.6

However, aside from the turn-overs in the world of merchants, in which one merchant always sells the same commodity to another, whereby this sort of circulation may assume the aspect of great prosperity during times of speculation, the merchant's capital abbreviates in the first place the phase C‘M for the productive capital. In the second place, under the modern credit system, it disposes of a large portion of the total capital of society, so that it can repeat its purchases, even before it has definitely sold its previous purchases. And it is immaterial in this case, whether the merchant sells directly to the ultimate consumer, or whether a dozen other merchant's intervene between the first merchant and the ultimate consumer.

Owing to the immense elasticity of the process of reproduction, which at any time may be driven beyond all bounds, this process finds no obstacle in production itself, or at best a very elastic one. Aside from the separation of C‘M and M‘C, which follows from the nature of commodities, a fictitious demand is here created. In spite of its independent status, the movement of merchant's capital is never anything else but the movement of industrial capital within the sphere of circulation. But thanks to its individualisation it moves within certain limits independently of the bounds of the process of reproduction, and thereby drives this process itself beyond its boundaries. The internal dependence and the external independence drive merchant's capital to a point, where the internal connection is violently restored by a crisis.
IV.XVIII.7

Hence we note the phenomenon that crises do not show themselves, nor break forth, first in the retail business, which deals with direct consumption, but in the spheres of wholesale business and banking, by which the money-capital of society is placed at the disposal of wholesale business.
IV.XVIII.8

The manufacturer may actually sell to the exporter, and the exporter may in his turn sell to his foreign customer, the importer may sell his raw materials to the manufacturer, and the manufacturer his products to the wholesale dealer, etc. But at some particular and unseen point,

the goods may lie unsold. On some other occasion, again, the supplies of all producers and middle men may become gradually overstocked. Consumption is then generally at its best either because one industrial capitalist sets a succession of others in motion, or because the laborers employed by them are fully employed and spend more than ordinarily. With the growing income of the capitalists their expenditures increase likewise. Besides, we have seen in volume II, Part III, that a continuous circulation takes place between constant capital and constant capital (even without considering any accelerated accumulation), which is in so far independent of individual consumption, as it never enters into such consumption, but which is nevertheless definitely limited by it, because the production of constant capital never takes place for its own sake, but solely because more of this capital is needed in those spheres of production whose products pass into individual consumption. However, this may proceed undisturbed for a while, stimulated by prospective demand, and in such lines the business of merchants and industrial capitalists prospers exceedingly. A crisis occurs whenever the returns of those merchants, who sell at long range, or whose supplies have accumulated also on the home market, become so slow and meager, that the banks press for payment, or the notes for the purchased commodities become due before they have been resold. It is then that forced sales take place, sales made in order to be able to meet payments. And then we have the crash, which brings the deceptive prosperity to a speedy end. IV.XVIII.9

But the superficiality and meaninglessness of the turn-over of merchant's capital are still greater, because the turn-over of one and the same merchant's capital may promote simultaneously or successively the turn-overs of several productive capitals.
IV.XVIII.10

Now, the turn-over of merchant's capital may not only promote the turn-overs of several industrial capitals, but also the opposite phase of the metamorphosis of commodity-capital. For instance, the merchant buys linen from the manufacturer and sells it to the bleacher. In this case, the turn-over of the same merchant's capital‘in fact, the same C ‘M, a realisation on the linen‘represents two opposite phases for two different industrial capitals. So far as the merchant sells at all for productive consumption, his C‘M always means M‘C for some industrial capitalist, and his M‘C always C‘M for some other industrial capitalist.
IV.XVIII.11

If we leave out of consideration, as we do in this chapter, K, the expenses of circulation, in other words, if we leave aside that portion of capital which the merchant advances apart from the money required for the purchase of commodities, it follows that Δ K, the additional profit made on this additional capital, will likewise be left out. This is the strictly logical and mathematically correct mode of

analysis, if we wish to study the way in which the profits and turn-over of merchant's capital affect prices.
IV.XVIII.12

If the price of production of 1 lb. of sugar is 1 p.st., the merchant can buy 100 lbs. of sugar with 100 p.st. If he buys and sells this quantity in the course of one year, and if the annual rate of average profit is 15% he would add 15 p.st. to 100 p.st., and 3 sh. to the price of production of 1 lb. of sugar, 1 p.st. That is, he would sell one pound of sugar at 1 p.st. 3 sh. But if the price of production of 1 lb. of sugar should fall to 1 sh., then the merchant could buy 2,000 lbs. of sugar with 100 p.st., and he could sell the sugar at 1 sh. 1 4/5 d. per lb. The annual profit on capital invested in the sugar business would still be 15 p.st. on each 100 p.st. Only he has to sell 100 lbs. in the first case, while he must sell 2,000 lbs. in the second place. The high or low level of the price of production would not have anything to do with the rate of profit. But it would have a great deal, or even a decisive deal, to do with that aliquot part of the selling price of each lb. of sugar which resolves itself in mercantile profit; in other words, it would have a great deal to do with the addition to the price which the merchant makes on a certain quantity of commodities, or products. If the price of production of a certain commodity is small, then the amount advanced by the merchant for the purchase of a certain quantity of that commodity is also small, and so is the amount of profit made by him on this quantity of cheap

commodities. Or, what amounts to the same, he can buy with a certain amount of capital, for instance with 100, a large quantity of these commodities, and the total profit of 15, which he makes on 100, will be distributed in small fractions over each individual portion of this mass of commodities. The opposite takes place in the opposite case. This depends entirely on the greater or smaller productivity of the industrial capital, with whose products he trades. If we except the cases, in which the merchant is a monopolist and monopolises at the same time the production of certain goods, as did the Dutch East India Company once upon a time, we must say that there is nothing more ridiculous than the current idea that it depends on the merchant whether he wants to sell many commodities at a small profit or few commodities at a large profit on the individual commodities. The two limits of his selling price are: On one hand, the price of production of commodities, over which he has no control; on the other hand, the average rate of profit, over which he has also no control. The only thing which he has to decide is whether he wants to deal in cheap or in dear commodities, and even here the size of his available capital and other circumstances have something to say. Therefore it depends wholly on the degree of development of the capitalist mode of production, not on the good will of the merchant, what course he shall follow in this. A purely commercial company like the old Dutch East India Company, which had a monopoly of production, could imagine that it would be able to continue a method, adapted at best

to the beginnings of capitalist production, under entirely changed conditions.*41

IV.XVIII.13

The following circumstances, among others, help to maintain that popular prejudice, which, like all wrong conceptions of profit, etc., arise out of the views of pure commerce:

1) Phenomena of competition, which, however, concern merely the distribution of mercantile profit among the individual merchants in their capacity as shareholders in the total merchant's capital; such as the underselling of other merchants by one of them for the purpose of beating his competitors.

2) An economist of the caliber of Professor Roscher of Leipsic may still imagine that a change in the selling prices may be brought about by considerations of "prudence and humanity," instead of being due to a revolution in the mode of production itself.

3) If the prices of production fall on account of an increased productivity of labor, and if consequently the selling prices also fall, then the demand, and with it the market prices, often rise even faster than the supply, so that the selling prices yield more than the average profit.

4) A merchant may reduce his selling price (which amounts after all to no more than a reduction of the current profit which he adds to

the price) in order to turn over a large capital more rapidly in his business.

IV.XVIII.14

All these things concern only competition between merchants themselves.

IV.XVIII.15

We have already shown in volume I, that the high or low level of the prices of commodities determines neither the mass of surplus-value produced by a certain capital nor the rate of surplus-value; it is merely true that, according to the relative quantity of commodities produced by a certain quantity of labor, the price of the individual commodity, and with it the share of surplus-value falling upon this price, is greater or smaller. The prices of every quantity of commodities are determined, so far as they correspond to their values, by the total quantity of labor incorporated in these commodities. If much labor is incorporated in few commodities, then the price of the individual commodities is low and the surplus-value contained in them is small. No matter in what proportion the labor incorporated in a commodity is divided into paid and unpaid labor, and no matter what portion of its price may represent surplus-value, it has nothing to do with the total quantity of this labor, nor, consequently, with its price. On the other hand, the rate of surplus-value does not depend on the

absolute magnitude of the surplus-value contained in the price of the individual commodity, but on its relative magnitude, on its proportion to the wages contained in the same commodity. The rate of surplus-value may therefore be large, while the absolute magnitude of the surplus-value in each individual commodity may be small. This absolute magnitude of the surplus-value in each commodity depends in the first place on the productivity of labor, and only in the second place on its division into paid and unpaid labor.
IV.XVIII.16

Moreover, in the case of the commercial selling price, the price of production is a condition determined by external circumstances.
IV.XVIII.17

The high prices of commerce in former times were due 1) to the dearness of the prices of production, in other words, to the unproductivity of labor; 2) to the absence of an average rate of profit, which enabled the merchant's capital to absorb a much larger quantity of the surplus-value than would have fallen to its share, had the capitals enjoyed a greater general mobility. The cessation of this condition, in both of its aspects, is due to the development of the capitalist mode of production.
IV.XVIII.18

The turn-overs of merchant's capital vary in length, their numbers consequently are greater or smaller, in different lines of commerce. Within the same line of commerce, the turn-over is more or less rapid in different phases of the economic cycle. However, an average number of turn-overs, which is found by experience, takes place. IV.XVIII.19

We have already noted, that the turn-over of merchant's capital differs from that of industrial capital. This follows from the nature of the case; one single phase in the turn-over of industrial capital appears as a complete turn-over of some independently constituted merchant's capital, or of a part of some such merchant's capital. This turn-over has also a different relation to the determination of profit and prices. IV.XVIII.20

In the case of the industrial capital, its turn-over expresses on one hand the periodicity of reproduction, and on it depends the mass of commodities, which may be thrown on the market in a certain period. On the other hand, its time of circulation forms a barrier, which is elastic and exerts more or less of a restraint on the creation of value and surplus-value, because it exerts a pressure on the volume of the process of production. The turn-over therefore acts as a determining element on the mass of annually produced surplus-value, and thus helps to determine the average rate of profit, but it acts as a negative, not as a positive element. For the merchant's capital,

however, the average rate of profit exists as a given magnitude. The merchant's capital does not directly participate in the creation of value or surplus-value, and it participates in the formation of an average rate of profit only to the extent that draws a dividend, in proportion to its size in the total social capital, out of the mass of profit produced by the industrial capital.
IV.XVIII.21

The greater the number of turn-overs of a certain industrial capital is under the conditions described in Volume II, Part II, the greater is the mass of profits created by it. Now, the formation of an average rate of profit distributes, the total profit among the different capitals, not in proportion to their actual participation in its direct production, but in proportion to the aliquot parts which they constitute in the total capital, that is, in proportion to their magnitudes. But this does not alter the essence of the matter. The greater the number of turnovers of the industrial capital as a whole is, the greater is the mass of profits, the mass of annually produced surplus-value, and therefore the rate of profit, always assuming other circumstances to remain unchanged. It is different with merchant's capital. For it, the rate of profit is a given magnitude, determined on one hand by the mass of profit produced by the industrial capital, on the other hand by the relative magnitude of the total merchant's capital, by its quantitative relation to the sum of capital advanced in the processes of production and circulation. The number of its turn-overs does indeed exert a

determining influence on its relation to the total social capital, or on the relative magnitude of the total merchant's capital required for the circulation. For it is evident that the absolute magnitude of the total merchant's capital and the velocity of its turn-over are inversely proportioned to one another. But, all other circumstances remaining the same, the relative magnitude of the merchant's capital, or its aliquot proportion in the total social capital, is determined by its absolute magnitude. If the total social capital is 10,000, and the merchant's capital 1,000, then it is 1/10 of the total; if the total capital is 1,000, and the merchant's capital 100, it is again 1/10. To that extent, the absolute magnitude of the merchant's capital may vary, while its relative magnitude in the total social capital remains the same. But in the present case, we assume that its relative magnitude of 1/10 of the total social capital is given. This relative magnitude, again, is determined by its turn-over. If it is turned over rapidly, its absolute magnitude will be 1,000 in the first case, and 100 in the second, so that its relative magnitude will be 1/10. But if it is turned over more slowly, then its absolute magnitude may be 2,000 in the first case, and 200 in the second case. Then its relative magnitude will have increased from 1/10 to 1/5 of the total social capital. Circumstances which reduce the average turn-over of merchant's capital, for instance, the development of means of transportation, reduce to that extent the absolute magnitude of merchants' capital and thereby increase the average rate of profit. The opposite takes place, if things are reversed. A developed mode of capitalist

production, compared to previous conditions, exerts a twofold influence on merchants' capital. In the first place, the same quantity of commodities is turned over with a smaller mass of actually functioning merchants' capital; for the proportion of the merchants' capital to industrial capital is reduced by the more rapid turn-over of merchants' capital and the greater velocity of the process of reproduction that is its basis. On the other hand, the development of the capitalist mode of production turns all production into a production of commodities, which puts all products into the hands of the agents of circulation. This is so much more notable, as under previous modes of production, which produced things on a small scale, a large portion of the producers sold their goods directly to the consumers or worked for their personal orders, leaving out of consideration that mass of products, which were immediately consumed by the producer himself, and that mass of services, which were performed in natura. While, therefore, under former methods of production, commercial capital represented proportionately a larger share of the commodity-capital which it turned over, it was.
IV.XVIII.22

1) absolutely smaller, because a disproportionately smaller part of the total product was produced in the shape of commodities, passed as commodity-capital into circulation, and fell into the hands of merchants. It was smaller, because the commodity-capital was smaller. But it was proportionately larger, not only because its turn-over was

slower, and because it constituted a larger portion of the mass of commodities turned over by it, but also because the price of this mass of commodities, and consequently the merchants' capital to be advanced for it, were greater than under capitalist production on account of a lower productivity of labor, so that the same value was incorporated in a smaller mass of commodities.
IV.XVIII.23

2) Not alone is a larger mass of commodities produced on the basis of capitalist production (taking account also of the reduced value of these commodities), but the same mass of products, for instance, of corn, also becomes to a greater extent commodity, that is, more and more of the product becomes an object of commerce. As a consequence, not only the mass of the merchants' capital, but of all capital invested in the circulation, increases, such as capital invested in marine shipping, railroading, telegraph business, etc.;
IV.XVIII.24

3) However, there is one point of view, which belongs in the discussion of "competition among capitals," namely: The merchants' capital, which is not serving in any function, or serving only in part, grows with the progress of the capitalist mode of production, with the facility of its investment in retail trade, with the increase of speculation, and with the superfluity of released capital.
IV.XVIII.25

But, assuming the relative magnitude of the merchants' capital in proportion to the social capital to be given, the difference of the turn-overs in the various lines of commerce does not affect the magnitude of the total profit falling to the share of the total merchants' capital, nor the general rate of profit. The profit of the merchant is determined, not by the mass of the commodity-capital turned over by him, but by the magnitude of the money-capital advanced by him for the promotion of this turn-over. If the yearly general rate of profit is 15%, and the merchant advances 100 p.st., which he turns over once a year, then he will sell his commodities at 115. If his capital is turned over five times per year, then he will sell a commodity-capital of 100 purchase price five times per year at 103, which will amount in one year to a commodity-capital of 500 sold 515. This constitutes the same annual profit of 15% on his advanced capital of 100 as before. If this were not so, then the merchants' capital would yield a much higher profit in proportion to the number of its turn-overs than the industrial capital, and this would be a contradiction to the law of the average rate of profit.
IV.XVIII.26

It follows, then, that the number of turn-overs of merchants' capital in the various lines of commerce affects the mercantile prices of commodities directly. The amount of the mercantile addition to the price, the addition of that aliquot part of the mercantile profit of a

given capital which falls upon the price of production of the individual commodities, stands in an inverse ratio to the number of turn-overs, or the velocity of turn-over, of the merchants' capitals in the various lines of commerce. If a certain merchants' capital is turned over five times per year, it will add to a commodity-capital of its own value but one-fifth of the profit, which another merchants' capital of the same value, which is turned over but once per year, will add to a commodity-capital of the same value.
IV.XVIII.27

This modification of selling prices by the average time of turn-over of the capitals in different lines of commerce amounts to this: In proportion to the velocity of turn-over, the same mass of profits, which is determined by the annual rate of average profit for any given magnitude of merchants' capital, independently of the specific commercial character of the operations of this capital, is differently distributed over masses of commodities of the same value. For instance, if the merchants' capital is turned over five times per year, it will add 15/5 = 3% to the price of commodities, and if turned over once per year, it will add 15% to their price.
IV.XVIII.28

The same percentage of the commercial profit in different lines of industry, according to the proportions of their times of turn-over,

increases the selling prices of commodities by different percentages calculated on their values.
IV.XVIII.29

On the other hand, in the case of industrial capital, the time of turn-over does not affect in any way the magnitude of the value of the individual commodities produced during that time, although it does affect the mass of value and surplus-value produced in a given time, because it affects the mass of exploited labor. This is indeed concealed and seems to be otherwise, as soon as one has an eye only to the prices of production. But this is due solely to the fact that, according to the previously analysed laws, the prices of production of the various commodities deviate from their values. As soon as we look upon the process of production in its totality, upon the mass of commodities produced by the entire industrial capital of society, we shall find the general law vindicated.
IV.XVIII.30

We see then, that a closer inspection of the influence of the time of turn-over on the formation of the values leads us back, in the case of the industrial capital, to the general law and to the basis of political economy, to-wit, the law that the values of commodities are determined by the labor time contained in them. But the influence of the turn-overs of merchants' capital on the mercantile prices reveals phenomena, which, without a very lengthy analysis of the connecting

links, seem to point to a purely arbitrary fixing of prices. They seem to be fixed purely on the intention that a certain capital should make a definite quantity of profits in one year. Particularly it looks, on account of this influence of the turn-overs, as though the process of circulation determined by itself the prices of commodities, independently, within certain limits, of the process of production. All superficial and false conceptions of the process of reproduction as a whole arise from the point of view of merchants' capital and from the conceptions, which its peculiar movements call forth in the minds of the agents of circulation.
IV.XVIII.31

If it is realised‘and the reader will have realised it to his great dismay ‘that the analysis of the actual internal interconnections of the capitalist process of production is a very complicated matter and a very protracted work; if it is a work of science to resolve the visible and external movement into the internal actual movement, then it is understood as a matter of course, that the conceptions formed about the laws of production in the heads of the agents of production and circulation will differ widely from these real laws and will be merely the conscious expression of the apparent movements. The conceptions of a merchant, a stock gambler, a banker, are necessarily quite perverted. Those of the manufacturer are vitiated by the acts of circulation, to which their capital is subject, and by the compensation of the general rate of profit.*42

IV.XVIII.32

Competition likewise plays a completely perverted role in these heads. If the limits of value and surplus-value are given, then it is easy to understand, in what manner the competition of capitals will transform values into prices of production and further into mercantile prices, and surplus-value into average profit. But without these limits, we cannot see any reason at all, why competition should reduce the average rate of profit to such and such a level instead of some other, should make it 15% instead of 1,500%. Competition at best can only reduce the rate of profit to one and the same level. But it does not contain any element, by which this level could be determined.

IV.XVIII.33

From the point of view of merchants' capital, the turn-over itself takes on the guise of a determining element of prices. On the other hand, while the velocity of the turn-over of industrial capital, in so far as it enables a certain industrial capital to exploit more or less labor, exerts a determining and limiting influence on the mass of profit and thus on the average rate of profit, this rate of profit exists as an external fact for the merchants' capital, and the internal connection of this rate with the production of surplus-value is entirely obliterated. If the same industrial capital, under otherwise equal circumstances, particularly with the same organic composition, is turned over four times per year instead of twice, it produces twice as much surplus-value and,

consequently, profit. And this becomes palpable, as soon and so long as this capital has the monopoly of that improved mode of production, to which it owes its accelerated turn-over. Vice versa, differences in the times of turn-over in different lines of commerce manifest themselves in such a way that the profit made on the turn-over of some given commodity-capital is in an inverse ratio to the number of turn-overs of the money-capital which turns this commodity-capital over. Small profits and quick returns appears particularly to the shopkeeper as a principle, which he follows on principle.
IV.XVIII.34

For the rest, it is a matter of course, that this law of turn-overs of merchants' capital holds good in each line of commerce only for the average of turn-overs made by the entire merchants' capital invested in each particular line, and always without a consideration of any succession of alternating and mutually compensating turn-overs of longer or shorter duration. The capital of A, who deals in the same line as B, may make more or less than the average number of turn-overs. This does not alter the turn-over of the total mass of merchants' capital invested in this line. But this is of decisive moment for the individual merchant or shopkeeper. He makes in this case an extra profit, just as the industrial capitalists make extra profits, if they produce under conditions more favorable than the average. If competition compels him, he can sell cheaper than his competitors without lowering his profit below the average. If the conditions, which

would enable him to turn his capital over more rapidly, are themselves for sale, such as a favorable location of the shop, he can pay extra rent for it, that is to say, a portion of his surplus-profit is converted into ground rent.

Notes for this chapter

41.
"Profit, on the general principle, is always the same, whatever be price; keeping its place like an incumbent body on the swelling or sinking trade. As, therefore, prices rise, a tradesman raises prices; as prices fall, a tradesman lowers price." (Corbet, An Inquiry into the Causes, etc., of the Wealth of Individuals. London, 1845, p. 15.) Here, as in the text of our work generally, we speak only of ordinary commerce, not of speculation. The analysis of speculation, as well as everything else pertaining to the division of mercantile capital, falls outside of the circle of our inquiry. "The profit of trade is a value added to capital which is independent of price, the second (speculation) is founded on the variation in the value of capital or in price itself." (L. c., p. 12.)
42.
It is a very naive, but also very correct remark that "Surely the fact that one and the same commodity may be had from different sellers at considerably different prices is frequently due to mistakes of calculation." (Feller and Oldermann, Das Ganze der kaufmannischen of

Arithmetik, 7. Aufl., 1859.) This shows how purely theoretical, that is abstract, the determination of prices becomes.

Part IV,

Volume III Chapter XIX FINANCIAL CAPITAL.

IV.XIX.1

THE purely technical movements performed by money in the process of circulation of industrial capital, and, as we may now add, of commercial capital, which assumes a part of the circulation movement of industrial capital as its own peculiar movement,‘these movements, if individualised into an independent function of some particular capital that performs nothing but just this service, convert a capital into financial capital. In that case, one portion of the industrial capital, and of commercial capital, persists not only in the form of money, of money capital in general, but as money-capital, which performs only these technical functions. A definite part of the total social capital separates from the rest and individualises itself in the form of money-capital, whose capitalist function consists exclusively in performing the financial operations for the entire class of industrial and commercial capitalists. As in the case of the commercial capital, so in that of financial capital a portion of the industrial capital in process of function in circulation separates from the rest and performs these

operations of the process of reproduction for all the other capital. These movements of such money-capital, then, are once more merely movements of an individualised part of industrial capital in the process of reproduction.
IV.XIX.2

Capital appears as the first and last point of this movement only to the extent that capital is newly invested, as happens in accumulation. But for every capital, which is already in process, this first and last point appear merely as points of transit. To the extent that industrial capital, from the moment of its exit from the sphere of production to that of its return to it, passes through the metamorphosis C'‘M‘C, M represents merely the final result of one phase of this metamorphosis and becomes at once the starting point of its supplementing second phase, as we have already seen in the discussion of the simple circulation of commodities. And although the C‘M of industrial capital signifies always M‘C‘M for the commercial capital, nevertheless the actual process for this last named capital, once that it has become engaged, is also C‘M‘C. But the commercial capital passes continually through and simultaneously through the acts C‘M and M‘C, that is to say, there is not only one capital in the stage C‘M, while another is in the stage M‘C, but the same capital buys continually and sells continually at the same time, on account of the continuity of the process of production. It is continually and simultaneously in both stages. While one of its parts is converted into money, to be

reconverted later into commodities, another is simultaneously converted into commodities, to be reconverted into money.
IV.XIX.3

Whether the money serves here as a means of circulation or of payment, depends on the form of the exchange of commodities. In both cases, the capitalist has to pay out money continually to many persons, and to receive money continually from many persons. This purely technical labor of paying money and receiving money constitutes an employment by itself, which necessitates the making of balances, the balancing of accounts, so far as money serves as a means of payment. This labor belongs to the expenses of circulation, it does not create any values. It is abbreviated by being organised as a special department of agents, or capitalists, who perform this work for all the rest of the capitalist class.
IV.XIX.4

A definite portion of the capital must be continually available as a hoard, as potential money-capital. It constitutes a reserve of means of purchase, a reserve of means of payment, unemployed capital in the form of money waiting to be put to work. And one portion of the capital continually returns in this form. This requires not only the collecting, paying, and bookkeeping operations, but also the storing of a hoard, which constitutes an operation by itself. This work consists indeed in a continual conversion of a hoard into means of circulation

and means of payment, and its restoration to the form of a hoard by means of money secured through sales and due payments. This continuous movement of that part of capital, which exists in the form of money, separated from the function of capital itself, this purely technical function causes its own labors and expenses, which belong to the expenses of circulation.
IV.XIX.5

The division of labor brings it about, that these technical operations, which are conditioned on the functions of capital, should be performed as much as possible for the entire capitalist class by one class of agents, or capitalists, into whose hands it is concentrated as their exclusive function. We have here, as in the case of commercial capital, a division of labor in a twofold sense. It becomes a special business, and because it is performed as a special business for the money-mechanism of the whole class, it is concentrated and performed on a large scale. And then a further division of labor takes place within this special business, on one hand by a separation into various independent lines, on the other by a segmentation of the work within each office of these special lines. Large offices, many bookkeepers and cashiers, far going division of labor, disbursing of money, receiving of money, balancing of accounts, keeping of current accounts, storing of money, etc., all these things, separated from the acts that necessitate these technical operations, make of the capital advanced for these functions a financial capital.

IV.XIX.6

The various operations, whose individualisation gives rise to special lines of financial business, follow from the different capacities of money itself and from its different functions, through which capital in its money-form must likewise pass.

IV.XIX.7

I have pointed out on a previous occasion, that the money business in general developed originally from an exchange of products between different communes.*43

IV.XIX.8

The financial business, the trade with money as a commodity, developed first out of international commerce. As soon as different national coins exist, the merchants buying in foreign countries must exchange their national coins into foreign coins, and vice versa, or exchange different coins for uncoined pure silver or gold as international money. This gives rise to the business of money-exchange, which is one of the primitive foundations of modern financial business.*44 Out of it developed the modern banks of exchange, in which silver (or gold) serve as world money‘now called bank money or commercial money‘as distinguished from current money. The business of money-exchange, so far as it consists merely of notes of payment to travelers from one money-exchanger in one

country to another in another country, developed as early as Roman and Grecian times out of the simple money-exchange.
IV.XIX.9

The trade with gold and silver as commodities (raw materials for the making of articles of luxury) forms the primitive basis of bullion trade, or of that trade, which promotes the functions of money as world money. These, functions, as previously explained (Volume I, chapter III, 3c), are twofold: A currency back and forth between the various national spheres of circulation for the purpose of balancing the international payments and for performing the migrations of capital in quest of interest; simultaneously with this movement, there is a movement of precious metals from their sources of production across the world market and a distribution of their supply over the various national spheres of circulation. In England, the goldsmiths still served as bankers during the greater part of the 17th century. The way in which the balancing of international accounts in the money trade is further developed, is not discussed here, any more than any points referring to the business of dealing in valuable papers, in short, we leave out of consideration all special forms of the credit system, since this does not yet concern us here.
IV.XIX.10

In the shape of world money, national money strips off its local character; one national money is expressed in another, and thus all of

them are finally reduced to their contents in gold or silver, while these two metals, being the two commodities circulating as world money, are simultaneously reduced to their mutual ratios, which change continually. The money trader makes this intermediate business his special occupation. Money changing and bullion trading are thus the primitive forms of the money trade, and they arise from the twofold functions of money as national money and world money.
IV.XIX.11

The capitalist process of production, and commerce in general, even under precapitalist methods, imply:

1) The accumulation of money in the shape of a hoard, that is, in the present case, the accumulation of that part of capital, which must always be on hand in the form of money, as a reserve fund of means of payment and means of purchase. This is the first form of a hoard, such as it reappears under the capitalist mode of production, and as it forms in general with the development of merchants' capital, at least for the purposes of this capital. These remarks apply to national as well as international circulation. This hoard is in continuous flux, pours ceaselessly into circulation, and returns uninterruptedly from it. The second form of a hoard is now that of fallow, unemployed, capital in the form of money, including newly accumulated and not yet invested money-capital. The functions first required by this formation of a hoard are those of safekeeping, bookkeeping, etc.

2) This is connected by an expenditure of money in buying, its reception on selling, making and receiving of payments, balancing of payments, etc. The money dealer performs all these services at first as a simple cashier of the merchants and industrial capitalists.*45

IV.XIX.12

Dealing in money is fully developed, even in its first stages, as soon as its ordinary functions of lending and borrowing are supplemented by the credit business. Of this more in the following part, which deals with interest-bearing capital.

IV.XIX.13

The bullion trade itself, the transfer of gold or silver from one country to another, is merely the result of the trade in commodities. It is determined by the quotations of bills of exchange, which express the stand of the international payments and of the rate of interest on the different markets. The bullion trader as such acts but as an intermediary between results.

IV.XIX.14

In discussing the way, in which the movements and forms of money develop out of the simple circulation of commodities, we have seen (Vol. I, chap. III), that the movements of the mass of money circulating as a means of purchase and payment are determined by

the metamorphosis of commodities, by the volume and velocity of this metamorphosis. And we know now, that this metamorphosis is itself but a phase in the entire process of reproduction. As for the movement of the raw materials of money‘gold and silver‘from their places of production, it resolves itself in a direct exchange of commodities, an exchange of gold and silver as commodities for other commodities. Hence it is as much a phase of the exchange of commodities as the securing of iron or other metals by means of exchange. And so far as the movements of precious metals on the world-market are concerned (we leave aside at this point the consideration of their movements to the extent that they express the transfer of capital by loans, a transfer, which takes place also in the shape of commodity-capital), they are quite as much determined by the international exchange of commodities as the movements of money as a national means of purchase and payment are determined by the exchange of commodities on the home market. The emigrations and immigrations of precious metals from one national sphere to another, which are caused by a depreciation of national coins, or by a double standard, are extraneous to the circulation of money as such and represent merely corrections of deviations brought about arbitrarily by state decrees. And finally, as concerns the formation of hoards, which constitute reserve funds for means of purchase and payment, either for the home trade or for foreign trade, and likewise of hoards, which represent merely a form of capital

temporarily unemployed, they are both necessary precipitates of the process of circulation.
IV.XIX.15

Just as the entire circulation of money, in its volume, its forms, and movements, is purely a result of the circulation of commodities which in its turn represents from the capitalist point of view only the process of circulation of capital (including the exchange of capital for revenue, and of revenue for revenue, so far as the expenditure of revenue is realised in retail trade), so it is a matter of course, that the trade in money does not promote merely the circulation of money, a mere result and phenomenon of the circulation of commodities. This circulation of money itself, as a phase in the circulation of commodities, is a fundamental requisite for the trade in money. This trade promotes merely the technical operations of money-circulation, concentrating, abbreviating, simplifying them. The trade in money does not form the hoards, but supplies the technical means by which the formation of hoards may be reduced to its economical minimum (so far as it is voluntary, that is, so far as it is not an expression of unemployed capital or of disturbances of the process of reproduction). For if the reserve funds of means of purchase and payment are managed for the capitalist class as a whole, they need not be so large as they would have to be, did each capitalist manage his own. The trade in money does not buy the precious metals, but merely promotes their distribution, as soon as the trade in commodities has

bought them. The trade in money facilitates the squaring of balances, so far as money serves as a means of payment, and reduces by the artificial mechanism of these compensations the amount of money required for this purpose. But it determines neither the connections, nor the volume, of the mutual payments. For instance, the bills of exchange and checks, which are exchanged for one another in banks and clearing houses, reflect quite independent transactions and are the results of real operations. It is merely a question of a better technical compensation of these results. So far as money serves as a means of purchase, the volume and number of purchases and sales are quite independent of the money trade. This trade cannot do anything but abbreviate the technical operations that go with buying and selling, and by this means it is enabled to reduce the amount of cash money required to turn the commodities over.
IV.XIX.16

The money trade in its pure form, which we consider here, that is, the money trade not complicated by the credit system, is concerned only with the technique of a certain phase of the circulation of commodities, namely with the circulation of money and the different functions of money following from its circulation.
IV.XIX.17

This distinguishes the money trade essentially from the trade in commodities, which promotes the metamorphosis of commodities and

their exchange, or which gives even to this process the aspect of a process of a certain capital separated from the industrial capital. While, therefore, the commercial capital has its own form of circulation, M‘C‘M, in which the commodity changes hands twice and thereby recovers the money, in distinction from C‘M‘C, in which the money changes hands twice and thereby promotes the exchange of commodities, there is no such special form of circulation, which can be demonstrated in the case of financial capital.
IV.XIX.18

To the extent that money-capital is advanced by a separate class of capitalists for the technical promotion of the circulation of money‘a capital representing on a reduced scale the additional capital, which the merchants and industrial capitalists must otherwise advance themselves for these purposes‘the general form of capital, M‘M', is found also here. By the advance of M, the advancing capitalist secures M + ΔM. But the promotion of the transaction M‘M' does not concern itself in this case with the objective materials, but only with the technical processes of this metamorphosis.
IV.XIX.19

It is evident, that the mass of money-capital, with which the money dealers have to operate, is the money-capital of the merchants and industrial capitalists in process of circulation, and that the operations

of the money dealers are merely those originally performed by the merchants and industrial capitalist.
IV.XIX.20

It is equally evident, that the profit of the money dealers is nothing but a deduction from the surplus-value, since they are operating merely with already realised values (even when they have been realised in the form of creditors' claims).
IV.XIX.21

As in the trade with commodities, so in that with money a duplication of functions takes place. For a portion of the technical operations connected with the circulation of money must be carried out by the dealers and producers of commodities themselves.

Notes for this chapter

43.
Critique of Political Economy, p. 53.
44.
"The great differences of coins themselves, as concerns their grain, and their coinage by many privileged princes and towns, necessitated the establishment of a business, which should enable merchants to use local money wherever any compensation between different coins was necessary. In order to be able to make cash payments,

merchants who traveled to a foreign market provided themselves with uncoined pure silver, or perhaps with gold. In the same way they exchanged the money received by them in local markets for uncoined silver or gold, when they prepared to return home. The business of exchanging money, the exchange of uncoined precious metals for local coins, and vice versa, thus became a widespread and paying business." (Hullmann, Stadtewesen des Mittclalters. Bonn, 1826-29, I, p. 437.) "Banks of exchange do not owe their name to the fact that they issue bills of exchange,...but to the fact that they used to exchange coins. Long before the establishment of the Amsterdam Bank of Exchange in 1609, there existed in the Dutch merchant towns money changers and exchange houses, even exchange banks....The business of these money changers consisted in exchanging the numerous varieties of coin, that were brought into the country by foreign traders, for the current coin of the realm. Gradually their circle of activity extended....They became the bankers and cashiers of modern times. But the government of Amsterdam saw a danger in the combination of the cashier business with the exchange business, and in order to meet this danger, it was resolved to establish a large institution, which should be able to perform both the cashier and the exchange operations. This institution was the famous Amsterdam Bank of Exchange of 1609. In like manner, the exchange banks of Venice, Genoa, Stockholm, Hamburg, owe their origin to the continual necessity of changing money. Of all these, the Hamburg Exchange is the only one that is still doing business, because the need of such an

institution is still felt in that merchants' town, which has no Mint of its own. Etc." (S. Vissering, Handboek van Praktische Staathuishoudkunde. Amsterdam, 1860, I, 247.)

45.

"The institution of cashiers has probably nowhere preserved its original and independent character so pure as in the Dutch merchant towns (see on the origin of the cashier business in Amsterdam, E. Lusac, Hollands Rykdom, part III). Its functions partly coincide with those of the old Amsterdam Bank of Exchange. The cashier receives from the merchants, who employ his services, a certain amount of money, for which he opens a 'credit' for them in his books. Furthermore they send him their due bills, which he collects for them and credits to their account. On the other hand, he makes payments on their notes (Kassiers brieffes) and charges their accounts with their current bills. He charges a small provision for these credits and debits, which yields him a corresponding remuneration for his labor only by the amount of business, which he can turn over between them. If payments are to be balanced between two merchants, who both deal with the same cashier, then such payments are simply settled by booking them mutually, while the cashiers balance their mutual claims from day to day. The cashier's business, then, consists at bottom of this promotion of payments. Therefore it excludes industrial enterprises, speculations, and the opening of blank credits; for it must be a rule in this business that the cashier makes no payment to any one keeping an account with him above his credit." (Vissering, l. c., p. 134.) On the

banking associations of Venice: "The requirements and locality of Venice, where the carrying of cash is more inconvenient than in other places, induced the large merchants of that town to found banking associations under due safeguards, supervision, and management. The members of such an association deposited certain sums, on which they drew checks for their creditors, whereupon the paid sum was deducted on the page of the debtor in the book kept for that purpose and added to the sum, which was credited in the same book to the creditor. This is the first beginning of the socalled giro banks. These associations are indeed old. But if they are attributed to the 12th century, they are confounded with the State Loan Institute, which was established in 1171." (Hüllmann, l. c. 550.)

Part IV,

Volume III Chapter XX HISTORICAL DATA CONCERNING MERCHANTS' CAPITAL.

IV.XX.1

THE particular form, in which the commercial capital and financial capital accumulate money, will be discussed in the next part of this volume.

IV.XX.2

From what has gone before it follows as a matter of course that nothing can be more absurd than to consider merchants' capital, whether in the shape of commercial or of financial capital, as some particular kind of industrial capital, such as that invested in mining, agriculture, stock raising, manufacture, transportation, etc., which constitute side lines of industrial capital formed by division of social labor and thus different spheres for its investment. The simple observation, that every industrial capital, when in the circulation phase of its process of reproduction, performs in the shape of commodity-capital and money-capital the very same functions, which appear as exclusive functions of the two forms of merchants' capital, should make such a crude conception impossible. On the other hand, in commercial and financial capital the differences between the productive nature of industrial capital and its functions in the sphere of circulation are independently individualised, by transferring definite forms and functions assumed momentarily by industrial capital into independent forms and functions of separate portions of capital permanently tied up in circulation. A changed form of industrial capital is widely different from distinctions between productive capitals following from the nature of the various lines of industry.
IV.XX.3

Aside from the brutality with which the economist ordinarily handles distinctions of form, in which he is interested only so far as their material side is concerned, the vulgar economist is influenced by two

other reasons in his violation of distinctions. There is, in the first place, his incapability to explain the peculiar nature of mercantile profit. In the second place, he writes for the apologetic purpose of proclaiming his opinion, that the process of production by its very nature, is the source of such forms as commodity-capital and money-capital, or later of merchants' capital and financial capital, instead of showing that they are due to the specific form of capitalist production, which is conditioned above all on the circulation of commodities and therefore of money.
IV.XX.4

If commercial capital and financial capital do not differ from the production of grain any more than this differs from stock raising and manufacture, then it is evident that production and capitalist production are one and the same thing, and that especially the distribution of the social products among the members of society for the purpose of productive or individual consumption need no more be promoted by merchants and bankers than the consumption of meat by stock raising or that of clothes by their manufacture.*46
IV.XX.5

The great economists, such as Smith, Ricardo, etc., are embarrassed over mercantile capital as a special kind, since they analyse the basic form of capital, industrial capital, and take notice of capital of circulation (commodity-capital and money-capital) only to the extent

that it is a phase in the process of reproduction of all capital. The rules concerning the formation of value, profit, etc., which are directly deduced from an analysis of industrial capital, do not fit merchants' capital directly. Therefore these economists leave merchants' capital entirely out of consideration and mention it only as a kind of industrial capital. Whenever they treat of it particularly, as Ricardo does in dealing with foreign commerce, they seek to demonstrate that it does not create any value (and consequently no surplus-value). But whatever is true of foreign commerce, applies also to home commerce.

IV.XX.6

Hitherto we have considered merchants' capital merely from the point of view of the capitalist mode of production, and within its limits. However, not only commerce, but also merchants' capital, is older than the capitalist mode of production. In fact, it represents historically the oldest free existence of capital.
IV.XX.7

As we have already seen that the money trade and the capital advanced for it require nothing for their existence but the presence of commerce on a large scale, and further of commercial capital, it is only the latter, which we have to consider here.
IV.XX.8

Since commercial capital is tied up in the circulation, and since its function consists exclusively in promoting the exchange of commodities, it follows that it requires no other condition for its existence‘aside from undeveloped forms arising from direct barter‘but those indispensable for the simple circulation of money and commodities. Or rather, the circulation of money is the condition of its existence. No matter what may be the basis on which production is carried on, which throws its products into circulation as commodities ‘ whether it be the basis of a primitive commune, or of slave production, or of small agricultural, small bourgeois, or capitalist‘the character of the products as commodities is not altered, and as commodities they have to pass through the process of exchange and through the forms incidental to it. The extremes, between which merchants' capital acts as a mediator, exist for it as given propositions, just as they do for money and its movements. The only requisite is that these extremes should be present as commodities, regardless of whether production is wholly a production of commodities, or whether only the surplus of the independent producers over the immediate needs satisfied by their production is thrown on the market. The merchants' capital promotes only the movements of these extremes, these commodities, which are premises of its own existence.

IV.XX.9

The extent to which production ministers to commerce and supplies the merchants, depends on the mode of production. It reaches its maximum under a fully developed capitalist production, in which the product is primarily produced as a commodity, not for direct subsistence. On the other hand, on the basis of every mode of production, commerce promotes the production of surplus products destined for exchange, for the purpose of increasing the enjoyments of wealth of the producers (who are here understood to be the owners of the products). Commerce impregnates production more and more with the character of a production for exchange.
IV.XX.10

The metamorphosis of commodities, their movements, consist, 1) materially, of an exchange of different commodities for one another; 2) formally, of a conversion of commodities into money by sale, and a conversion of money into commodities by purchase. And the functions of merchants' capital resolve themselves into these functions of buying and selling commodities. It promotes merely the exchange of commodities, which must be conceived at the outset as being something more than a bare exchange of commodities between direct producers. Under slavery, feudalism, vassalage, so far as primitive organisations are concerned, it is the slave holder, the feudal lord, the tribute collecting state, who are the owners and sellers of the products. The merchant buys and sells for many. In his hands are concentrated purchases and sales, and purchase and sale cease

consequently to be dependent on a direct necessity of the buyer (as a merchant).
IV.XX.11

But whatever may be the social organisation of the spheres of production, whose exchange of commodities the merchant promotes, his wealth exists always in the form of money and his money always serves as capital. Its form is always M‘C‘M'. Money, the independent form of exchange value, is his starting point, expansion of the exchange value his independent purpose. He occupies himself with the exchange of commodities and the operations incidental to it, which are separated from production and performed by a non-producer, and this is merely a means to increase wealth and at that wealth in its most general social form, exchange value. His compelling motive and compelling end are the conversion of M into M + ΔM. The transactions M‘C and C‘M, which promote the act M‘M', appear merely as stages of transition in this conversion of M into M + ΔM. This M‘C‘M' is the characteristic movement of merchants' capital which distinguishes it from C‘M‘C, the exchange of commodities between the producers themselves, which has for its ultimate end the exchange of use-values.
IV.XX.12

To the extent that production is undeveloped, the money wealth will be concentrated in the hands of merchants, will appear in the specific form of merchants' wealth.
IV.XX.13

Within the capitalist mode of production‘that is, as soon as capital has seized hold of production and given to it a wholly changed and specific form‘merchants' capital appears merely as a capital with a specific function. But in all previous modes of production, and so much the more production ministers to the direct wants of the producers themselves, merchants' capital appears as the capital which performs the function of capital.
IV.XX.14

There is, then, no difficulty in understanding how it is that that merchants' capital is the historical form of capital long before capital has subjected production to its control. Its existence and development to a certain level are themselves historical premises for the development of capitalist production. For they are, 1), premises for the concentration of moneyed wealth, and 2), the capitalist mode of production is conditioned on production for exchange, commerce on a large scale instead of with a few individual customers, and this requires also a merchant, who does not buy for the satisfaction of his own individual wants, but concentrates the transactions of many buyers in one commercial transaction. On the other hand, all

development of merchants' capital tends to give to production more and more the character of a production for exchange and to impregnate the products more and more with the character of commodities. But the development of merchants' capital by itself is incapable of bringing about and explaining the transition from one mode of production to another, as we shall presently see.
IV.XX.15

Within capitalist production, the merchants' capital is reduced from its former independent existence to a special phase in the investment of capital in general, and the compensation of profits reduces its rate of profits to the general average. Then it serves only as an agent of productive capital. The particular social conditions, which formed together with the development of merchants' capital, are then no longer paramount. On the contrary, where merchants' capital still predominates, we find backward conditions. This is true even of one and the same country, in which, for instance, the pure merchants' towns form far better analogies with past conditions than the manufacturing towns.*47
IV.XX.16

An independent and prevailing development of capital in the shape of merchants' capital signifies that production is not subject to capital, in other words, it means that capital develops on the basis of a mode of production independent and outside of it. The independent

development of merchants' capital stands therefore in an inverse ratio to the general economic development of society.
IV.XX.17

The independent mercantile wealth, as a prevailing form of capital represents the independent establishment of the process of circulation as against its extremes, and these extremes are the exchanging producers themselves. These extremes remain independent of the process of circulation, just as this circulation remains independent of them. The product becomes a commodity in this case by way of commerce. It is commerce which, under such conditions, develops products into commodities; it is not the produced commodity itself which, by its movements, gives rise to commerce. Capital in the capacity of capital appears here first in the process of circulation. In the process of circulation money first develops into capital. In the circulation, the products first assume the character of exchange values, of commodities and money. Capital can and must form in the process of circulation, before it learns to control the extremes, that is, the various spheres of production between which circulation intervenes as a mediator. The circulation of money and commodities may act as an intermediary between spheres of production of widely different organisation, whose internal structure is still, predominantely adjusted to the production of use-values. This independent status of the process of circulation, by which various spheres of production are connected by means of a third link, expresses two facts. On the one

hand it shows that the circulation has not yet seized hold of production, but as yet regards it as an existing fact. On the other hand, it shows that the process of production has not yet absorbed circulation and made a phase of production of it. But in capitalist production, both of these things are accomplished. The process of production rests wholly upon the circulation, and the circulation is a mere phase of transition of production, in which the product, having been created as a commodity, is realised in money and its elements of production replaced by products, which have likewise been created in the shape of commodities. That form of capital, which developed directly in circulation, the merchants' capital, appears here merely as one of the forms of capital in its process of reproduction.
IV.XX.18

The rule, that the independent development of merchants' capital is inversely proportioned to the degree of development of capitalist production, becomes particularly manifest in the history of the carrying trade, for instance, among the Venetians, Genoese, Dutch, etc., where the principal gains were not made by the exportation of the products of the home industries, but by the promotion of the exchange of products of commercially and otherwise economically undeveloped societies and by the exploitation of both spheres of production.*48
IV.XX.19

Here the merchants' capital is pure, separated from the extremes, the spheres of production, between which it intervenes. This is one of the main sources of its formation. But this monopoly of the carrying trade disintegrates, and with it this trade itself, in proportion as the economic development of peoples advances, whom it exploits at each end of its course, and whose backward development formed the basis of this trade. In the carrying trade, this appears not only as the disintegration of a special line of commerce, but also as the disintegration of the supremacy of purely commercial nations and of their commercial wealth in general, which rested upon this carrying trade. This is but one of the special forms, which expresses the subordination of the commercial capital to the industrial capital with the advance of capitalist production. The manner in which merchants' capital behaves wherever it rules over production is drastically illustrated, not only by the colonial economy (the colonial system) in general, but particularly by the methods of the old Dutch East India Company.
IV.XX.20

Since the movement of merchants' capital is M‘C‘M', the profit of the merchant is made, in the first place, only within the process of circulation, by the two transactions of buying and selling; and in the second place, it is realised in the last transactions, the sale. It is a profit upon alienation. At first sight, a pure and independent commercial profit seems impossible, so long as products are sold at

their value. To buy cheap in order to sell dear is the rule of trade. It is not supposed to be an exchange of equivalents. The conception of value is included in it only to the extent that the individual commodities all have a value and are to that extent money. In quality, they are all expressions of social labor. But they are not values of equal magnitude. The quantitative ratio, in which products are exchanged, is at first quite arbitrary. They assume the form of commodities inasmuch as they are exchangeable, that is, inasmuch as they may be expressed in terms of the same third thing. The continued exchange and the more regular reproduction for exchange reduces this arbitrariness more and more. But this applies not at once to the producer and consumer, but only to the mediator between them, the merchant, who compares the money-prices and pockets their difference. By his own movements he establishes the equivalence of commodities.
IV.XX.21

The merchants' capital is at first merely the intervening movement between extremes not controlled by it and between premises not created by it.
IV.XX.22

Just as from the mere form of the circulation of commodities, C‘M‘C, money rises not only as a measure of value and medium of circulation, but also as the absolute form of the commodity and thus

of wealth, in the form of a hoard, so that its conservation and accumulation as money become its life's purpose, so money, in the shape of a hoard, issues from the mere form of the circulation of merchants' capital, M‘C‘M', as something which is preserved and increased only by its alienation.
IV.XX.23

The trading nations of the ancients existed like the gods of Epicure in the intermediate worlds of the universe, or rather like the Jews in the pores of Polish society. The trade of the first independent and highly developed merchant towns and trading nations rested as a pure carrying trade upon the barbarism of the producing nations between whom they intervened.
IV.XX.24

In the precapitalist stages of society, commerce rules industry. The reverse is true of modern society. Of course, commerce will have more or less of a reaction on the societies, between which it is carried on. It will subject production more and more to exchange value, by making enjoyments and subsistence more dependent on the sale than on the immediate use of the products. Thereby it dissolves all old conditions. It increases the circulation of money. It seizes no longer merely upon the surplus of production, but corrodes production itself more and more, making entire lines of production dependent

upon it. However, this dissolving effect depends to a large degree on the nature of the producing society.
IV.XX.25

So long as merchants' capital promotes the exchange of products between undeveloped societies, commercial profit does not only assume the shape of outbargaining and cheating, but also arises largely from these methods. Leaving aside the fact that it exploits the difference in the prices of production of the various countries (and in this respect it tends to level and fix the values of commodities), those modes of production bring it about that merchants' capital appropriates to itself the overwhelming portion of the surplus-product, either in its capacity as a mediator between societies, which are as yet largely engaged in the production of use-values and for whose economic organisation the sale of that portion of its product which is transferred to the circulation, or any sale of products at their value, is of minor importance; or, because under those former modes of production, the principal owners of the surplus-product, with whom the merchant has to deal, are the slave holder, the feudal landlord, the state (for instance, the oriental despot), and they represent the wealth and luxury, which the merchant tries to trap, as Adam Smith correctly scented in that passage on feudal times, which I have quoted above. Merchants' capital in its supremacy everywhere stands for a system of robbery,*49 and its development, among the trading nations of old and new times, is always connected with plundering, piracy, snatching

of slaves, conquest of colonies. See Carthage, Rome, and later Venetians, Portuguese, Dutch, etc.
IV.XX.26

The development of commerce and merchants' capital brings forth everywhere the tendency toward production of exchange values, increases its volume, multiplies and monopolises it, develops money into world money. Commerce therefore has everywhere more or less of a dissolving influence on the producing organisations, which it finds at hand and whose different forms are mainly carried on with a view to immediate use. To what extent it brings about a dissolution of the old mode of production, depends on its solidity and internal articulation. And to what this process of dissolution will lead, in other words, what new mode of production will take the place of the old, does not depend on commerce, but on the character of the old mode of production itself. In the antique world the effect of commerce and the development of merchants' capital always result in slave economy; or, according to what the point of departure may be, the result may simply turn out to be the transformation of a patriarchal slave system devoted to the production of direct means of subsistence into a similar system devoted to the production of surplus-value. However, in the modern world, it results in the capitalist mode of production. From these facts it follows, that these results were conditioned on quite other circumstances than the mere influence of the development of merchants' capital.

IV.XX.27

It follows from the nature of the case that as soon as town industry as such separates from agricultural industry, its products are from the outset commodities and require for their sale the intervention of commerce. The leaning of commerce upon the development of the towns, and, on the other hand, the dependence of the towns upon commerce, are to that extent intelligible. However, in what measure industrial development will keep step with this development, depends upon quite other circumstances. Already ancient Rome, in its later republican days, developed merchants' capital more highly than it had ever existed in the antique world, without any progress in the development of crafts, while in Corinth and in other Grecian towns of Europe and Asia Minor the development of commerce was accompanied by highly developed crafts. On the other hand, in direct opposition to the development of towns and its conditions, the trading spirit and the development of commerce are frequently found among unsettled nomadic peoples.

IV.XX.28

There is no doubt‘and it is precisely this fact which has led to many wrong conceptions‘that in the 16th and 17th centuries the great revolutions, which took place in commerce with the through geographical discoveries and rapidly increased the development of merchants' capital, form one of the principal elements in the transition

from feudal to capitalist production. The sudden expansion of the world market, the multiplication of the circulating commodities, the zeal displayed among the European nations in the race after the products of Asia and the treasures of America, the colonial system, materially contributed toward the destruction of the feudal barriers of production. However, the modern mode of production, in its first, period, the manufacturing period, developed only in places, where the conditions for it had been previously developed during medieval times. Compare, for instance, Holland with Portugal.*50 And, on the other hand, when in the 16th, and partially still in the 17th, century the sudden expansion of commerce and the creation of a new world market exerted an overwhelming influence on the overthrow of the old mode of production and the rise of the capitalistic one, this was accomplished on the basis of the already created capitalist mode of production. The world market forms itself the basis of this mode of production. On the other hand, the immanent necessity of this production to produce on an ever enlarged scale tends to extend the world market continually, so that it is not commerce in this case which revolutionises industry, but industry which continually revolutionises commerce. The commercial supremacy itself is now conditioned on the greater or smaller prevalence of the conditions for a large industry. Compare for instance, England and Holland. The history of the decline of Holland as the ruling commercial nation is the history of the subordination of merchants' capital to industrial capital. The obstacles presented by the internal solidity and articulation of

precapitalistic, national, modes of production to the corrosive influence of commerce is strikingly shown in the intercourse of the English with India and China. The broad basis of the mode of production is here formed by the unity of small agriculture and domestic industry, to which is added in India the form of communes resting upon common ownership of the land, which, by the way, was likewise the original form in China. In India, the English exerted simultaneously their direct political and economic power as rulers and landlords, for the purpose of disrupting these small economic organisations.*51 The English commerce exerts a revolutionary influence on these organisations and tears them apart only to the extent that it destroys by the low prices of its goods the spinning and weaving industries, which are an archaic and integral part of this unity. And even so this work of dissolution is proceeding very slowly. It proceeds still more slowly in China, where it is not backed up by any direct political power on the part of the English. The great economy and saving in time resulting from the direct connection of agriculture and manufacture offer here the most dogged resistance to the products of great industries, whose prices are everywhere perforated by the dead expenses of their process of circulation. On the other hand, Russian commerce, unlike the English, leaves the economic basis of Asiatic production untouched.*52
IV.XX.29

The transition from the feudal mode of production takes two roads. The producer becomes a merchant and capitalist, in contradistinction

from agricultural natural economy and the guild-encircled handicrafts of medieval town industry. This is the really revolutionary way. Or, the merchant takes possession in a direct way of production. While this way serves historically as a mode of transition‘instance the English clothier of the 17th century, who brings the weavers, although they remain independently at work, under his control by selling wool to them and buying cloth from them‘nevertheless it cannot by itself do much for the overthrow of the old mode of production, but rather preserves it and uses it as its premise. For example, even up to the middle of the 19th century the manufacturer in the French silk industry and in the English hosiery and lace industries was but nominally a manufacturer, and merely a merchant in point of fact, who permitted the weavers to continue their work in the old unorganized way and exerted only the control of the merchant, for whom they work in reality.*53 This method is everywhere an obstacle to a real capitalist mode of production and declines with the development of the latter. Without revolutionising the mode of production, it deteriorates merely the condition of the direct producers, transforms them into mere wage workers and proletarians under worse conditions than those who have already been placed under the immediate control of capital and absorbs their surplus-labor on the basis of the old mode of production. The same conditions exist in a somewhat modified form in the London furniture industry, so far as it is carried on by handicrafts. Particularly in the Tower hamlets it is practised on a very extensive scale. The whole production is divided

into numerous separate lines independent of one another. One business makes only chairs, another only tables, a third only bureaus, etc. But these lines of business themselves are run more or less like crafts, by one small master with a few journeymen. Nevertheless the output is too large to work directly for private persons. The products are bought by owners of furniture stores. On Saturdays the master sees them and sells his product, and the transaction is closed with as much haggling as is done in a pawnshop over the loan on this or that piece. The masters need this weekly sale, were it for no other reason than to buy more raw materials for next week and pay wages. Under these circumstances, they are really only middlemen between their employes and the merchants. The merchant is the real capitalist, who pockets the largest share of the surplus-value.*54
IV.XX.30

A similar condition exists in the transition to manufacture from lines, which were formerly carried on as handicrafts or as sidelines to rural industries. According to the development of such small independent businesses‘which may even employ machinery that admits of a craftslike operation‘the transition to large scale industry takes place. The machine is driven by steam, instead of by hand. This is the case, for instance, of late in the English hosiery industry.
IV.XX.31

There is, consequently, a threefold transition. First, the merchant becomes directly an industrial capitalist. This is the case in crafts conditioned on commerce, especially industries producing luxuries, which are imported by the merchants together with the raw materials and laborers from foreign countries, as they were in Italy from Constantinople in the 15th century. In the second place, the merchant converts the small masters into his middlemen or, perhaps, buys direct from the self-producer, leaving him nominally independent and his mode of production unchanged. In the third place, the industrial becomes a merchant and produces immediately on a large scale for commerce.
IV.XX.32

In the Middle Ages, the merchant is merely the man who, as Poppe correctly says, "removes" the goods produced by the guilds or the peasants. The merchant becomes an industrial capitalist, or rather, he lets the craftsmen, particularly the small rural producers, work for him. On the other hand, the producer becomes a merchant. The master weaver, instead of receiving his wool in installments from the merchant and working for him with his journeymen buys wool or yarn himself and sells his cloth to the merchant. The elements of production pass into his process of production as commodities bought by himself. And instead of producing for the individual merchant, or for definite customers, the master cloth-weaver produces for the commercial world. The producer is himself a merchant. The merchants'

capital performs no longer anything but the process of circulation. Originally the commerce was the premise for the transformation of the crafts, rural domestic industries, and feudal agriculture into capitalist enterprises. It develops the products into commodities, either by creating a market for them, or by carrying new equivalents in the form of goods to them and supplying production with new raw and auxiliary materials. In this way it opens up new lines of production, which are based at the outset upon commerce, both as concerns the production for the home and world market and as concerns conditions of production originated by the world market. As soon as manufacture gains sufficient strength, and still more large scale industry, it creates in its turn a market for itself and captures it with its commodities. Now commerce becomes the servant of industrial production, and a continual expansion of the market becomes a vital necessity for industrial production. An ever more extended wholesale production floods the existing market and thereby works continually toward a still wider expansion of the market and a bursting of its bonds. What restricts this wholesale production, is not commerce (to the extent that it expresses the existing demand), but the magnitude of the employed capital and the developed productivity of labor. The industrial capitalist always has the world market before him, compares, and must continually compare, his own cost-prices with those of the whole world, not only with those of his home market. In former periods this comparison falls almost entirely upon the shoulders of the

merchants, and thereby secures for merchants' capital the supremacy over industrial capital.
IV.XX.33

The first theoretical treatment of modern modes of production‘the mercantile system‘started out necessarily from the superficial phenomena of the process of circulation, which are presented in an independent form by the movements of merchants' capital. Therefore it grasped only the semblance of things. This was partly due to the fact that merchants' capital is the first free mode of existence of capital in general. On the other hand, it was due to the overwhelming influence exerted by this capital during the first period of revolution of feudal production, the period of genesis of modern production. The real science of modern economy does not begin, until theoretical analysis passes from the process of circulation to the process of production. It is true, interest-bearing capital is likewise a very old form of capital. But we shall see later, why mercantilism did not take its departure from it, but assumed a controversial attitude towards it.

Notes for this chapter

46.
Smart Mr. Roscher has figured out that, since certain people designate trade as a mediation between producers and consumers, "one" might just as well designate production itself as a mediation of consumption

(between whom?), and this implies, of course, that the merchants' capital is as much a part of the productive capital as agricultural and industrial capital. In other words, because I can say, that man can mediate his consumption only by means of production (and he has to do this even without getting his education at Leipsic), or that labor is required for the appropriation of the products of nature (which might be called a mediation), it follows, that a mediation arising from a specific form of production‘a real mediation‘has the same absolute character and rank of a necessity. The word mediation settles everything. Moreover, the merchants are not mediators between producers and consumers (leaving out of consideration consumers which do not produce), but mediators of the exchange of products of producers among themselves. They are but middle men in an exchange, which in a thousand cases takes place without them.

47.

Mr. W. Kiesselbach (in his "Der Gang des Welthandels im Mittelalter," 1860) is indeed still living in the conceptions of a world, in which the merchants' capital is the general form of capital. He has not the least inkling of the modern meaning of capital, any more than Mommsen has, when he speaks in his history of Rome of "capital" and "the rule of capital." In modern English history, the commercial estate proper and the merchant towns are also political reactionaries and in league with the landed and financial aristocracy against industrial capital. Compare, for instance, the political role of Liverpool as against Manchester and Birmingham. The complete rule of industrial capital

was not acknowledged by English merchants' capital and moneyed interests until after the abolition of the duties on corn, etc.

48.

The inhabitants of merchant towns imported refined manufactured goods and expensive articles of luxury from rich countries, and thus offered incentives to the vanity of the large landowners, who eagerly bought these goods and paid large quantities of raw materials from their lands for them. Thus the commerce of a large part of Europe during this period consisted in an exchange of the raw materials of one country for the manufactured products of some industrially developed country. As soon as this taste became general and created a considerable demand, the merchants, in order to save the expenses of freight, began to establish similar manufactures in their own countries. (Adam Smith, Book III, chapter III.)

49.

"Now there is among merchants much complaint about the nobles or robbers, because they must trade under great danger and run the risk of being kidnapped, beaten, blackmailed, and robbed. If they suffered these things for the sake of justice, the merchants would be saintly people...But since such great wrong and unchristian thievery and robbery are committed all over the world by merchants, and even among themselves, is it any wonder that God should procure that such great wealth, gained by wrong, should again be lost or stolen, and they themselves hit over their heads or made prisoners?...And the princes should punish such unjust bargains with due rigor and take

care that their subjects shall not be so outrageously abused by merchants. Because they don't do so, God employs knights and robbers, and punishes through them the merchants for the wrongs committed, and uses them as his devils, just as he plagues Egypt and all the world with devils, or persecutes with enemies. In the same way he beats one boy through another, without thereby insinuating that knights are any the less robbers than merchants, although the merchants daily rob the whole world, while a knight may rob one or two once or twice in a year." "Go by the word of Esau: Thy princes have become the companions of robbers. For they hang the thieves, who have stolen a gulden or a half gulden, but they associate with those, who rob all the world and steal with greater assurance than all others, that the proverb may remain true: Great thieves hang little thieves; and as the Roman senator Cato said: Mean thieves lie in prisons and stocks, but public thieves are clothed in gold and silks. But what will God say finally? He will do as he said to Ezekiel, he will amalgamate princes and merchants, one thief with another, like lead and iron, as when a city burns down, leaving neither princes nor merchants." (Martin Luther, Bücher vom Kaufhandel und Wucher. Vom Jahr, 1527.)

50.

How overweening fishing, manufacture, and agriculture were as a basis in the development of Holland, aside from other circumstances, has already been explained by writers of the 18th century, for instance, by Massic. In contradistinction to the former view, which

underrated the volume and importance of the commerce of Asia, of antiquity, and of the Middle Ages, it has now become the custom to overestimate it extraordinarily. The best remedy against this conception is a study of the imports and exports of England in the beginning of the 18th century and their comparison with modern imports and exports. And yet this 18th century commerce was incomparably greater than that of any former trading nation. (See Anderson, History of Commerce.)

51.

If any nation's history, then it is the history of the English management of India which is a string of unsuccessful and really absurd (and in practice infamous) experiments in economics. In Bengal they created a caricature of English landed property on a large scale; in southeastern India a caricature of small allotment property; in the Northwest they transformed to the utmost of their ability the Indian commune with common ownership of the soil into a caricature of itself.

52.

Since Russia has begun making frantic exertions to develop its own capitalist production, which is exclusively dependent upon its home market and the neighboring Asiatic states, this is also gradually changing.‘F. E.

53.

The same is true of the ribbon and basting makers and silk weavers in the Rhine districts. Near Crefeld even a railroad has been built for

the intercourse of these rural hand weavers with the "manufacturer" in the city, but has later been tied up, together with the handloom weavers themselves, by the mechanical weaving industry.‘F. E.
54.
This system has been developed since 1865 on a still larger scale. Details concerning it are contained in the First Report of the Select Committee of the House of Lords on the Sweating System, London, 1888.‘F. E.

PART V.
DIVISION OF PROFIT INTO INTEREST AND PROFITS OF ENTERPRISE. THE INTEREST-BEARING CAPITAL.

Part V,

Volume III Chapter XXI THE INTEREST-BEARING CAPITAL.

V.XXI.1

IN our first discussion of the general, or average, rate of profit in Part II of this volume, we did not have this rate before us in its complete form, since the equalisation of profit appeared there only as an equalisation between the various industrial capitals invested in different spheres. This was further supplemented in the preceding Part, in which the participation of merchants' capital in this equalisation and

the commercial profit were discussed. By this means the general rate of profit and the average profit presented themselves within more circumscribed limits than before. In the further process of our analysis it should be remembered, that any future reference to the general rate of profit or to the average profit means only this latter, completed, form of the average rate. Since this rate is now the same for the industrial and the mercantile capital, it is no longer necessary, so far as this average profit is concerned, to make any distinction between industrial and commercial profit. Whether capital is invested industrially in the sphere of production, or commercially in the sphere of circulation, it yields the same average profit annually in proportion to its magnitude.
V.XXI.2

Money‘which signifies here any independent expression of a certain amount of value, whether it exists actually as money or as commodities‘may be converted into capital on the basis of capitalist production. By this conversion it is transformed from a given value to a self-expanding, increasing, value. It produces a profit, that is, it enables a capitalist to extract a certain amount of unpaid labor, surplus-products and surplus-value, from the laborers and to appropriate it to himself. In this way it acquires, aside from its use-value as money, an additionel use-value, namely that of serving as capital. Its use-value consists then precisely in the profit, which it produces when converted into capital. In this capacity of potential

capital, of a means for the production of profit, it becomes a commodity, but a commodity of a peculiar kind. Or, what amounts to the same, capital as capital becomes a commodity.*55
V.XXI.3

Take it that the average rate of profit is 20%. In that case a machine, valued at 100 p.st., employed as capital under the prevailing average conditions and with an average exertion of intelligence and adequate activity, would yield a profit of 20 p.st. In other words, a man having 100 p.st. at his disposal, holds in his hand a power by which 100 p.st. may be turned into 120 p.st., or by which a profit of 20% may be produced. He holds in his hand a potential capital of 100 p.st. If this man relinquishes these 100 p.st. for one year to another man, who uses this sum actually as capital, he gives him the power to produce a profit of 20%, a surplus-value, which costs this other nothing, for which he pays no equivalent. If this man should pay, say 5 p.st. at the close of the year to the owner of the 100 p.st., out of the produced profit, he would be paying for the use-value of the 100 p.st., the use-value of its function as capital, the function of producing 20 p.st. of profit. That part of the profit, which he pays to the owner, is called interest. It is merely another name, a special term, for a certain part of the profit, which capital in process of its function has to give up to its owner, instead of keeping it in its own pockets.
V.XXI.4

It is evident, that the possession of 100 p.st. gives to their owner the power to absorb the interest, a certain portion of the profit produced by his capital. If he did not give the 100 p.st. to the other man, then this other could not produce any profit, and could not act in the capacity of capitalist at all with reference to these 100 p.st.*56
V.XXI.5

To speak in such a case of natural justice, as Gilbart is doing (see note), is nonsense. The justice of the transactions between the agents of production rests on the fact that these transactions arise as natural consequences from the conditions of production. The juristic forms, in which these economic transactions appear as activities of the will of the parties concerned, as expressions of their common will and as contracts which may be enforced by law against some individual party, cannot determine their content, since they are only forms. They merely express this content. This content is just, whenever it corresponds, and is adequate, to the mode of production. It is unjust, whenever it contradicts that mode. Slavery on the basis of capitalist production is unjust; likewise fraud in the quality of commodities.
V.XXI.6

The 100 p.st. produce the profit of 20 p.st. by functioning as capital, whether it be industrial or commercial. But the indispensable condition of this function as capital is that this money is used as capital, that

this money is invested in the purchase of means of production (in the case of industrial capital), or of commodities (in the case of merchants' capital). But in order to be expended, it must be there. If A, the owner of the 100 p.st., were to spend them for his private expenses, or to keep them as a hoard, they could not be invested by B, in his capacity as a capitalist, as capital. B does not invest his own capital, but that of A. But he cannot expend the capital of A without the consent of A. Therefore it is really A, who first expends these 100 p.st. as capital, although his whole function as a capitalist is limited to this expenditure of 100 p.st. as capital. So far as these 100 p.st. are concerned, B acts in the capacity of a capitalist only because A lends him this money and thus expends it as capital.
V.XXI.7

Let us first consider the peculiar circulation of interest-bearing capital. Then we shall analyse in the second place the peculiar manner, in which it is sold as a commodity, being merely lent instead of relinquished for good.
V.XXI.8

The point of departure is the money, which A advances to B. This may be done with or without security. However, the first named form is the more ancient, with the exception of advances on commodities or on certificates of indebtedness, such as bills of exchange, bonds,

etc. These special forms do not concern us here. We are dealing here with interest-bearing capital in its ordinary form.
V.XXI.9

In the hand of B, the money is actually converted into capital, passes through the process M‘C‘M', and returns as M' to A, as M + increment of M, where the increment of M represents the interest. For the sake of simplicity we leave out of consideration the case, in which capital stays in the hands of B for a long term and interest is paid at periodical intervals.
V.XXI.10

The movement, then, is M‘M‘C‘M'‘M'. What appears duplicated here is 1) the expenditure of the money as capital, 2) its reflux as realised capital, as M', or as M + increment of M.
V.XXI.11

In the movement of merchants' capital, M‘C‘M', the same commodity changes hands twice, or even more than twice, if one merchant sells to another. But every change of hand of these commodities indicates a metamorphosis, a purchase or sale of commodities, no matter how often this process may be repeated until it ends in consumption.
V.XXI.12

On the other hand, the same money changes hands twice in C‘M‘C, but this indicates the complete metamorphosis of the commodity, which is first converted into money and then from money back into another commodity.
V.XXI.13

But in the case of interest-bearing capital, the first change of hands of M is not a phase of either the metamorphosis of a commodity or of the reproduction of capital. It does not become so until the second change of hands, in the hands of the man acting in the capacity of a capitalist, who carries on a trade with it or transforms it into productive capital. The first change of hands of M does not express anything else in this case but its transfer, or handing over by contract, from A to B. This is a transfer, which usually takes place under certain juristic forms and stipulations.
V.XXI.14

This duplicated expenditure of money as capital, the first of which is merely a transfer from A to B, is supplemented by the duplication of its reflux. As M', or M + increment of M, it flows back out of the process to the man acting in the capacity of a capitalist. This man in his turn transfers it back to A, together with a part of the profit, of realised capital, of M + increment of M, which, however, is not equal to the entire profit, but only a part of the profit, the interest. It flows back to B only as the thing which he had invested, as capital in

process of function, but as the property of A. In order that its reflux may be complete, B must return it to A. But B has not only to return the amount of the capital, he must also turn over to A a part of the profit, which he made with this capital, and this part is called interest. For A gave him this money only as a capital, that is, as a value, which is not only maintained by its movements, but brings also a surplus-value to its owner. It remains in the hands of B only so long as it is performing its function of capital. And it ceases to be capital as soon as it is returned to its owner on the stipulated date. When no longer serving as capital, it must be returned to A, who never ceased being its legal owner.
V.XXI.15

The form of lending, which is peculiar to this commodity, this capital as a commodity, and which also occurs in other transactions instead of that of sale, follows from the simple definition that capital serves here as a commodity, or that money as capital becomes a commodity.
V.XXI.16

It is necessary to make a distinction here.
V.XXI.17

We have seen in Volume II, chapter I, and recall at this point, that capital serves in the process of circulation as commodity-capital and

money-capital. But in neither of these forms does capital become a commodity as capital.
V.XXI.18

As soon as the productive capital has transformed itself into commodity-capital, it must be thrown upon the market, it must be sold as a commodity. There it serves simply in the capacity of a commodity. The capitalist then appears only as a seller of commodities, just as the buyer is only a buyer of commodities. As a commodity, the product must realise its value in the process of circulation, by its sale, must assume the form of money. In this respect it is quite immaterial, whether this commodity is bought by a consumer for the purpose of subsistence, or by a capitalist as a means of production to become a part of his capital. In the act of circulation, the commodity-capital serves only as a commodity, not as capital. It is a commodity-capital, as distinguished from a simple commodity, 1), because it is pregnant with surplus-value, so that the realisation of its value is simultaneously a realisation of surplus-value. But this does not alter in any way its simple existence as a commodity, as a product of a certain price. 2) It is a commodity-capital, because its function as a commodity is a phase in its process of reproduction as capital, so that its movement as a commodity, being a part of its movement in process, is simultaneously its movement as capital. Yet it does not become capital by the act of selling as such, but only through the connection of this act with the

whole movement of this definite amount of value in the capacity of capital.
V.XXI.19

In like manner it serves only as money pure and simple, when acting in the capacity of money-capital, that is, as a means of buying commodities (the elements of production). The fact that this money is at the same time money-capital, a form of capital, is not due to the act of buying, which is the service performed by it as money. It is due to the connection of this act with the total movement of capital, since this act, which it performs as money, inaugurates the capitalist process of production.
V.XXI.20

But so far as they perform any service and play any actual role in the process, commodity-capital on the market serves only as a commodity, money-capital only as money. At no time during the metamorphosis, viewed by itself, does the capitalist sell his commodities as capital to the buyer, although they represent a capital for himself, nor does he give up money to the sellers in his capacity as a capitalist. In either case he exchanges his commodities simply as commodities, and the money simply as money, as a means of purchasing commodities.
V.XXI.21

It is only in the connection with the whole process, at the moment where the point of departure appears simultaneously as the point of return, in M‘M' or C‘C', that capital in the process of circulation appears as capital (while it appears as capital in the process of production through the subordination of the laborer under the capitalist and the production of surplus-value). In this moment of return, however, the connection disappears. What is present is M', that is money plus increment of money (regardless of whether the amount of value increased by this increment has the form of money, commodities, or elements of production), a certain amount of money equal to the amount originally advanced plus an increment, which is the realised surplus-value. And it is precisely at this point of return, where capital exists as a realised capital, as an expanded value, that capital never passes into circulation‘considering this point as a fixed point of rest, whether imaginary or real‘, but rather appears to be withdrawn from circulation as a result of the whole process. Whenever it is again relinquished, it is never transferred to another as capital, but sold to him as a simple commodity, or given to him as simple money in exchange for commodities. It never appears as capital in its process of circulation, but only as a commodity or as money, and this is the only form in which it exists so far as others are concerned. Commodities and money are here capital, not inasmuch as commodities change into money, or money into commodities, not with reference to their actual relations to sellers or buyers, but only with reference to their ideal relations, that is, subjectively speaking, their

relations to the capitalist himself, or objectively speaking, as elements of the process of reproduction. So far as capital is capital, it exists only in its actual function, not in the process of circulation, but only in the process of production, in the process by which labor-power is exploited.
V.XXI.22

But it is different with interest-bearing capital, and it is precisely this difference, which constitutes its specific character. The owner of money, who desires to invest his money as interest-bearing capital, transfers it to some one else, throws it into circulation, makes a commodity of it as capital. It is not a capital for himself alone, but also for others. It is not capital merely for the man who offers it for investment, but it is handed to others at the outset as capital, as a value endowed with the use-value of creating surplus-value, profit; a value which preserves itself in process and returns to its original owner, in this case the owner of money, after performing its function. It moves away from him only for a certain time, it passes for a while from the possession of its owner into that of a capitalist performing his business, it is neither given up in payment nor sold, but merely loaned. It is relinquished only with the understanding that it shall in the first place return to its point of departure after a certain time, and that it shall return, in the second place, as realised capital, a capital having actually performed its function of creating surplus-value.
V.XXI.23

Commodities, which are loaned out as capital, are loaned either as fixed or as circulating capital, according to their constitution. Money may be loaned in either form. For instance, it may be loaned as fixed capital in the form of an annuity, whereby a portion of the capital returns with the interest. Some commodities, owing to the nature of their use-values, can be loaned only as fixed capital, such as houses, ships, machines, etc. But all loan capital, whatever be its forms, and no matter in what manner the nature of its use-value may modify its return, is only a specific form of money-capital. For the thing that is loaned here is always a definite sum of money, and it is this sum on which interest is calculated. If the thing that is loaned is neither money nor circulating capital, it is paid back in the same way in which fixed capital returns. The lender receives periodically a certain interest and a portion of the consumed value of the fixed capital itself, an equivalent for the periodical wear and tear. And at the end of the stipulated term the unconsumed portion of the loaned fixed capital is returned in natura. If the loaned capital is circulating capital, it is like-wise returned in the manner peculiar to circulating capital. V.XXI.24

The manner of reflux, then, is always determined by the actual circulation of the capital in process of reproduction and its specific kind. But so far as loan capital is concerned, its reflux assumes the

form of return payments, because its advance, by which it is relinquished, has the form of loaning.
V.XXI.25

In this chapter we treat only of money-capital proper, from which the other forms of loaned capital are derived.
V.XXI.26

The loaned capital returns in a twofold way. First it returns in the process of reproduction to the capitalist performing his function, and then its return is duplicated by its transfer to the lender, the money-capitalist, in the form of a return payment to its real owner, its legal point of departure.
V.XXI.27

In the actual process of circulation the capital appears always as a commodity or as money, and its movements are always dissolved into a series of purchases and sales. In short, the process of circulation resolves itself into the metamorphosis of commodities. It is different, when we consider the process of reproduction as a whole. If we take our departure from money (and it is the same, when we start off with commodities, since we then take our departure from their value and look upon them from the point of view of money), we see that a certain sum of money is expended and returns after a certain period with an increment. This sum has preserved itself and expanded itself

in the course of a certain rotation. To the extent that money is loaned as capital, it is loaned as just such a sum of money, which preserves and expands itself, returns after a certain period with an increment, and is ready to pass through the same process once more. It is not expended either as money or as a commodity, it is neither exchanged for commodities when advanced in the form of money, nor sold in exchange for money, when advanced in the form of commodities. It is expended as capital. This reflexive relation to itself, in which capital presents itself when the process of production is viewed in its entirety and as a unit, and in which money appears as self-increasing money, is here imposed upon it as its character and peculiarity without the intervention of any intermediary movement. And it is expended in this peculiar form, when it is loaned as money-capital.
V.XXI.28

A very queer conception of the role of money-capital is held by Proudhon "Gratuité du Crédit. Discussion enter M. F. Bastiate et M. Proudhon. Paris, 1850.") Loaning appears as an evil to Proudhon because it is not selling. Loaning at interest is for him "the faculty of always selling the same article over and over, and of receiving its price again and again, without ever relinquishing the ownership of the things one is selling" (page 9). The object, such as money, a house, etc., does not change owners, as it does in selling and buying. But Proudhon does not see, that no equivalent is received for money

handed over as interest-bearing capital. It is true that objects are passed from one to another in every act of buying and selling, so far as they are at all processes of exchange. The ownership of the sold object is always relinquished. But its value is not given up. In selling the commodity is relinquished, but not its value, which is given in return in the form of money, or in another form which here takes the place of money, namely of certificates of indebtedness, or of titles of payment. In buying money is given away, but its value, which is recovered in the shape of commodities. The industrial capitalist holds the same value in his hands during the entire process of reproduction (except the surplus-value), only it assumes different forms.
V.XXI.29

To the extent that exchange takes place, that is, an exchange of objects, no change of value takes place. The same capitalist always holds the same value in his hands. But so long as surplus-value is produced by the capitalist, no exchange takes place. As soon as exchange takes place, the surplus-value is already incorporated in the commodities. If we do not have in mind the individual acts of exchange, but the total circulation of capital, M‘C‘M', we see that a definite amount of values is continually advanced, and that this amount plus the surplus-value, or the profit, is recovered from the circulation. It is true, the individual acts of exchange do not reveal the fact that they are promoting this process. And it is precisely this

process of M as capital, on which the interest of the money-lending capitalist rests and from which it arises.
V.XXI.30

"In fact," says Proudhon, "the hat maker, who sells hats...receives their value, no more and no less. But the money-lending capitalist...does not recover merely his capital: he recovers more than his capital, more than he throws into circulation; he receives an interest over and above his capital." (Page 169.) The hatter stands here in the place of the productive capitalist as distinguished from a loan capitalist. Evidently Proudhon did not learn the secret, which enables the capitalist to sell commodities at their value (the equalisation of values by the prices of production is here immaterial for his conception), whereby he receives a profit in addition to the capital, which he throws into circulation. Let us assume that the price of production of 100 hats is 115 pounds sterling, and that this price of production happens to be identical with the value of the hats, which means that the capital invested in the production of hats is of the same composition as the average social capital. If the profit is 15 p.st., or 15%, then the hatter gets this profit of 15 p.st. by selling his hats at their value of 115. They cost him 100 p.st. If he has produced them with his own capital, he pockets the whole surplus of 15 p.st. If he has borrowed the capital, he may have to give up 5 p.st. for interest. This does not alter anything in the value of the hats, but only in the distribution of the surplus-value already contained

in this value between different persons. Since the value of the hats is not affected by the payment of interest, it is nonsense on the part of Proudhon to say: "As in commerce the interest of capital is added to the wages of laborers in making up the price of commodities, it is impossible that the laborer should be able to buy back the product of his own labor. To live by working is a principle, which implies a contradiction under the rule of interest."*57
V.XXI.31

How little Proudhon understood the nature of capital, is shown by the following statement, in which he describes the movement of capital in general as a movement peculiar to interest-bearing capital: "Since money-capital, from exchange to exchange, comes always back to its source by the accumulation of interest, it follows that re-investment is always made by the same hand and profit accrues always to the same person."
V.XXI.32

What is it, now, that remains a riddle to him in the peculiar movement of interest-bearing capital? The categories buying, price, giving up objects, and the spontaneous form, in which surplus-value appears here; in short, the phenomenon that capital as such has become a commodity, so that selling has been turned into lending and price into a share in the profit.
V.XXI.33

The return of capital to its point of departure is the most general and characteristic movement of capital in its total circulation. This is by no means a peculiarity of interest-bearing capital. Its peculiarity is rather the externalised form of its return without the intervention of any circulation. The loaning capitalist lets go of his capital, transfers it to some industrial capitalist, without receiving any equivalent. His handing over of capital is not an act of the real circulation of capital at all, but serves merely as a prelude for the industrial capitalist who effects this circulation. This first change of place of money does not express any act of metamorphosis, neither buying nor selling. Its ownership is not relinquished, because no exchange takes place, no equivalent is offered. The return of the money from the hand of the industrial capitalist to that of the loaning capitalist supplements merely the first act of handing over the capital. This capital, after having been advanced in the form of money, returns to the industrial capitalist from the process of circulation in the form of money. But as the capital did not belong to him when he expended it, neither can it belong to him on its return. The passage through the process of reproduction cannot by any means give him the ownership of this capital. Hence he must restore it to its lender. The first transfer of the capital from the hands of the lender to those of the borrower is a legal transaction, which has nothing to do with the actual process of reproduction, but merely inaugurates it. The restoration, which transfers the returned capital from the hands of the borrower back to

those of the lender is another legal transaction, a supplement of the first. The first inaugurates the actual process, the second takes place after this process. The point of departure and of return, the dispensation and recovery of the loaned capital, thus appear as arbitrary movements promoted by legal transactions, which take place before and after the actual process of capital and have nothing to do with it. So far as this actual process is concerned, the industrial capitalist might as well own the capital at the outset, so that it would return to him as his property.
V.XXI.34

In the first introductory act the lender gives his capital to the borrower. In the second and closing act after the process, the borrower returns the capital to the lender. To the extent that we consider merely the transaction between these two‘and leaving aside the question of interest for the present‘, in other words to the extent that we have in mind only the movement of the loan capital itself between the lender and the borrower, the whole movement is comprised within these two acts (separated by a longer or shorter time, during which the process of actual reproduction of capital takes place). And this movement, this dispensing on condition of returning, constitutes per se the movement of lending and borrowing, which is a specific form of a conditional dispensation of money or commodities.
V.XXI.35

The characteristic movement of capital in general, namely the return of money to the capitalist, the return of capital to its point of departure, assumes in the case of interest-bearing capital a wholly externalised form, separated from the actual movement of which it is an expression. A lets go of his money, not in the sense of money, but of capital. This implies no transformation of the capital. It merely changes hands. Its real transformation into capital is not performed until it is in the hands of B. But it has become capital for A as soon as he has given it to B. The actual reflux of capital from the processes of production and circulation takes place only for B. But for A the reflux assumes the same form as the dispensation. The capital returns from the hands of B to those of A. Dispensing, loaning money for a certain time and recovering it with interest (surplus-value) make up the complete form of the movement, which is peculiar to interest-bearing capital as such. The actual movement of the loaned money as capital constitutes a process, which is outside of the transactions between the lender and the borrower. In these transactions the intermediate process is obliterated, invisible, not directly comprised. V.XXI.36

Being a peculiar sort of commodity, capital has its own peculiar mode of alienation. Its return in the present case is not the expression, not the consequence or result, of a definite series of economic processes, but the outcome of a specific legal agreement between buyer and seller. The time of return depends on the duration of the process of

reproduction. But in the case of interest-bearing capital, its return as capital seems to depend on the mere agreement between lender and borrower. The return of capital as a part of this agreement no longer appears as a result due to the process of reproduction, but seems to take place without depriving the loaned capital of the form of money. It is true that these transactions are actually determined by the reproductive returns. But this is not evident in the transactions themselves. Nor is it always the case in practice. If the return in reproduction does not take place at the proper time, then the borrower has to face the problem. what other resources he can call into play to fulfill his obligations towards the lender. The mere form of this capital‘that is, money expended as a certain sum, A, and returning as another sum A + IA/ x, after a certain lapse of time, without any other intermediate connection but this lapse of time‘is but an abstract image of the actual movement of capital.
V.XXI.37

In the actual movement of capital, its return is a phase of the process of circulation. The money is first converted into means of production; the process of production transforms it into commodities; by the sale of the commodities it is reconverted into money, and in this form it returns to the hands of the capitalist, who originally advanced the capital in the form of money. But in the case of interest-bearing capital, both the alienation and the return are the results of a legal transaction between the owner of capital and

another person. We see only the alienation and the return. Whatever passes during the interval is obliterated.
V.XXI.38

But since money, when advanced as capital, has the faculty of returning to the person, who expended it as capital, since M‘C‘M' is the immanent form of the movement of capital, for this very reason the owner of money can loan it as capital, a thing having the faculty of returning to its point of departure, of preserving its value while under way in process, and of increasing it. He loans it as capital, because it returns to its point of departure after having been transformed into capital, so that the borrower can restore it to the lender after a certain period, because he has recovered it himself.
V.XXI.39

The loaning of money as capital‘its alienation on condition that it be returned after a certain time‘is therefore conditioned on the requirement that this money be actually employed as capital, so that it may actually flow back to its starting point. The actual cycle of money as capital is therefore the basic condition of the legal transaction, by which the borrower has to return the money to the lender. If the borrower does not invest the money as capital, it is his own business. The lender loans it as capital, and as such it is supposed to perform the capitalist functions, which include the

circulation of money-capital until it reaches once more its starting point in the form of money.
V.XXI.40

The transactions M‘C and C‘M' in the circulation, in which a certain amount of value serves as money or commodities, are but intermediary processes, individual phases of a whole movement. As capital, this sum passes through the whole movement M‘M'. It is advanced as money, or as a sum of values in some form, and returns as a sum of values. The lender of money does not expend it in the purchase of commodities, or, if this sum of values exists in the form of commodities, he does not sell it for money, but he advances it as capital, as M‘M', as a value, which returns after a certain lapse of time to its point of departure. Instead of buying and selling, he loans. This loaning, then, is the form corresponding to its alienation as capital, instead of its alienation as money or commodities. This does not mean, however, that loaning may not be used in transactions, which have nothing to do with the capitalist process of reproduction.

V.XXI.41

We have so far considered only the movements of loaned capital between its owner and the industrial capitalist. Now we shall have to inquire into interest.
V.XXI.42

The lender expends his money as capital; the amount of values, which he relinquishes into the hands of another, is capital and returns to him. But the mere return of the loan capital into his hands as the same amount would not be its reflux as capital, but merely the return of a loaned sum of values. In order to return as capital, the advanced sum of values must not only be preserved in process, but must also be expanded, must return with a surplus-value, must be recovered as M + increment of M. This increment of M is in the present case the interest. It is that portion of the average profit, which does not remain in the hands of the practicing capitalist, but falls to the share of the money capitalist.
V.XXI.43

The fact that the money capitalist expends it as capital implies that it must be restored to him as M + increment of M. Later we shall also have to consider the case, in which interest is paid in fixed intervals without the simultaneous return of the capital, whose definite return does not take place until at the end of a longer period.
V.XXI.44

What is it that the money capitalist gives to the borrower, the industrial capitalist? What does he really pass over to him? It is only this transaction of handing over money which makes of the loaning of

money a lending of money as capital, that is, the lending of capital as a commodity.
V.XXI.45

It is only by this act of passing money over to another that the capital is loaned by the money lender as a commodity, or that the commodity at his disposal is given to another as capital.
V.XXI.46

What is it that is alienated in ordinary sale? It is not the value of the sold commodities, for this changes merely its form. The value exists ideally in a commodity as its price, before it passes actually into the hands of the seller as money. The same value and the same amount of value merely change their form in such a case. In one instance they exist in the form of a commodity, in another in the form of money. The thing which is actually alienated by the seller, and which for this reason passes into the individual or productive consumption of the buyer, is the use-value of the commodity, is the commodity as a use-value.
V.XXI.47

What, then, is the use-value, which the money capitalist passes over for the period of the loan and relinquishes into the hands of the borrower, the productive capitalist? It is the use-value, which the money assumes by being capable of being invested as capital and

performing the functions of capital, so that it can create a definite surplus-value, the average profit (any excess or fall below this is here a matter of accident), during its process, in addition to preserving its original magnitude of value. In the case of other commodities the use-value is ultimately consumed. Their substance disappears in consequence and with it their value. But the commodity capital has the peculiarity, that the consumption of its use-value not only preserves its exchange value and its use-value, but also increases them.
V.XXI.48

It is this use-value of money as capital, this faculty of producing an average profit, which the money capitalist relinquishes to the industrial capitalist for the period, during which he yields to the latter the use of the loan capital.
V.XXI.49

The money thus loaned shows in this respect a certain analogy with labor-power in its relation to the industrial capitalist. There is only this difference, that he pays for the value of labor-power, while he simply pays back the value of the loaned capital. The use-value of labor-power consists for the industrial capitalist in the faculty that labor-power creates more value (the profit) by its consumption for the industrial capitalist. And in like manner the use-value of the loan capital appears as its faculty of preserving and increasing value.

V.XXI.50

The money-capitalist alienates indeed a use-value, and for this reason the thing which he gives away is given as a commodity. And to this extent the analogy with a commodity is complete. In the first place, it is a value, which passes from one hand to another. In the case of a simple commodity, a commodity as such, the same value remains in the hands of the buyer and seller, only it has different forms; both have the same value which they had before the transaction, the one in the form of a commodity, the other in that of money. The difference in the case of loan capital is that the money capitalist is the only one who gives away a value when loaning money; but he preserves it by means of future restoration. In the transaction of loaning only one party receives value, since only one party relinquishes value.

V.XXI.51

In the second place, it is a real use-value, which is relinquished on one side and received and consumed on the other. But it differs from the use-value of ordinary commodities in that it is itself a value, namely the excess over the value of the original capital realised by the use of money as capital. The profit is this use-value.

V.XXI.52

The use-value of the loan capital consists in being able to serve as capital and to produce in this capacity the average profit under average conditions.*58
V.XXI.53

What, then, does the industrial capitalist pay, and what is, therefore, the price of the loaned capital? That which men pay as interest for the use of what they borrow is, according to Massie, a part of the profit it is capable of producing.*59
V.XXI.54

What the buyer of an ordinary commodity buys is its use-value; what he pays for is its exchange value. What the borrower of money buys, is likewise its use-value as capital; but what does he pay for? Surely not for its price, or value, as in the case of ordinary commodities. No change of form takes place in the value passing between the borrower and the lender, such as takes place between the buyer and the seller, so that this value would exist in one instance in the form of money, in another instance in the form of a commodity. The sameness of the alienated and returned value shows itself here in an entirely different way. The sum of values, the money, is given away without an equivalent, and is returned after the lapse of a certain period. The lender always remains the owner of the same value, even after it has passed from his hands into those of the borrower. In the simple exchange of commodities, the money is always on the side of

the buyer; but in the lending, the money is on the side of the lender. It is he, who gives away his money for a certain period, and it is the borrower, the buyer of capital, who receives it as a commodity. But this is possible only when the money serves as capital and is advanced for this purpose. The borrower borrows money as capital, as a value producing an increment. But at the moment of borrowing it is as yet only potential capital, and so is any other capital at the moment when it is advanced. Only by its use does it expand its value and realise itself as capital. But after it has become realised capital, the borrower has to return it, as a value plus a surplus-value (interest). And this interest can be only a portion of the realised profit. Only a portion, not the whole of it. For its use-value for the borrower consists in producing a profit for him. Otherwise there would not have been any alienation of its use-value on the part of the lender. On the other hand, it cannot be the whole profit which falls to the share of the borrower. Otherwise he would not be paying anything for the alienation of the use-value, and he would return the advanced money to the lender as simple money, not as a capital having realised itself. For it is realised capital only when it is M + increment of M.
V.XXI.55

Both of them expend the same sum of money as capital, the lender and the borrower. But only in the hands of the latter does it serve as capital. The profit is doubled by the double existence of the same

sum of money as a capital for two persons. It can serve as a capital for both of them only by dividing the profit. That portion, which falls to the share of the lender, is called interest.
V.XXI.56

It is our assumption, that this entire transaction takes place between two kinds of capitalists, the money-capitalist and the industrial or the merchant capitalist.
V.XXI.57

It should never be forgotten, that capital as such is here a commodity, or that the commodity, which is here in question, is capital. All the relations, which become manifest here, would be irrational from the point of view of a simple commodity, or even from the point of view of capital serving as a commodity-capital in its process of reproduction. Lending and borrowing, instead of selling and buying, is here a distinction arising from the specific nature of the commodity, of capital; also that it is interest, not the price of the commodity, which is paid here. If interest is to be called the price of money-capital, it will be an irrational form of price, which is quite at variance with the conception of the price of commodities.*60 The price is then reduced to its purely abstract and meaningless form, signifying a certain sum of money paid for some thing, which serves in some manner as a use-value. On the other hand, the concept of price really signifies the value of some use-value expressed in money.

V.XXI.58

To call interest the price of capital is to use at the outset an irrational expression. A commodity has here a double value, namely first a real value, and secondly a price differing from this value, while ordinarily price signifies the expression of the value in money. Money-capital is primarily but a sum of money, or the value of a certain quantity of commodities incorporated in a sum of money. If a commodity is loaned as capital, then it is only the disguised form of a sum of money. For that which is loaned as capital is not so and so many pounds of cotton, but so much money existing in the form of cotton as its value. The price of capital, therefore, refers to it as a sum of money, even if not a currency, as Mr. Torrens thinks (see above note 60). How, then, can a sum of values have a price beside its own price, that is, aside from the price expressed in their own money-form? Price is precisely the value of commodities (and this holds good also of the market-price, whose difference from value is not one of quality, but only one of quantity, since it refers only to the magnitude of the value) as distinguished from their use-value. A price which is different in quality from value is an absurd contradiction.*61

V.XXI.59

Capital manifests itself as capital by its employment. The degree of its self-expansion expresses the quantitative ratio, in which it realises itself as capital. The surplus-value or profit produced by it‘its rate or

magnitude‘is measurable only by its comparison with the value of the advanced capital. The greater or lesser self-expansion of interest-bearing capital is, therefore, only measurable by a comparison of the amount of interest, its share in the total profits, with the value of the advanced capital. While the price expresses the value of commodities, the interest expresses the self-expansion of money-capital and thus appears as the price, which the lender receives for it. This shows how absurd it is at the start to apply indiscriminately to this question the simple relations of exchange through buying and selling, as Proudhon does. For the basic premise is here that money serves as capital and may thus be transferred as capital itself, as potential capital, to another person.
V.XXI.60

Capital itself appears here as a commodity, inasmuch as it is offered on the market as the use-value of money actually handed over as capital. Its use-value consists in producing profits. The value of money or of commodities employed in the capacity of capital is not determined by their value as money or commodities, but by the quantity of surplus-value, which they produce for their owner. The product of capital is profit. On the basis of capitalist production it is merely a difference in the employment of money, whether it is expended as money or advanced as capital. Money, or commodities, are in themselves, potentially, capital, just as labor-power is potential capital. For in the first place, money may be converted into elements

of production and is to that extent only an abstract expression of them, personifying their existence as values; in the second place, the material elements of wealth have the capacity of being even potentially capital, because the opposite supplement, which makes capital of them, namely wage-labor, is present on the basis of capitalist production.
V.XXI.61

The opposing social peculiarities of material wealth, its antagonism to labor in the form of wage-labor, considered apart from the process of production, are expressed even in capitalist property as such. This particular fact, when separated from the process of capitalist production itself, of which it is a constant result and, being its constant result, is its constant prerequisite, expresses itself in such a way that money and commodities alike become latent, potential, capital, so that they may be sold as capital, and that they represent in this form a command over the labor of others, a claim to the appropriation of the labor of others, so that they become self-expanding values. In this way it also becomes clearly apparent that this relation supplies the title and means for the appropriation of the labor of others, and that this is not due to any labor offered as an equivalent on the part of the capitalist.
V.XXI.62

Capital appears furthermore as a commodity, inasmuch as the division of profit into interest and profit proper is regulated by demand and supply, that is, by competition, just as are the market-prices of commodities. But in the present case the difference becomes quite as apparent as the analogy. If demand and supply balance, the market-price of commodities corresponds to their price of production. In other words, their price is then seen to be regulated by the internal laws of capitalist production, independently of competition, since the fluctuations of supply and demand do not explain anything but the deviations of market-prices from the prices of production. These deviations balance mutually, so that in the course of long periods the average market-prices correspond to the prices of production. As soon as these prices coincide, these forces cease to operate, they compensate one another, and the general law determining prices then applies also to individual cases. The market-price then corresponds even in its immediate form, and without the help of averages drawn from the movements of market-prices, to the price of production, which is regulated by the immanent laws of the mode of production itself. The same is then true of wages. If supply and demand balance, they neutralise each other's effects, and wages are then equal to the value of labor-power. But it is different with the interest on money-capital. Competition does not, in this case, determine the deviations from the rule, but there is rather no law of division except that enforced by competition, because no such thing as a "natural" rate of interest exists, as we shall see presently. By the natural rate of

interest people merely mean the rate fixed by free competition. There are no "natural" limits for the rate of interest. Whenever competition does not merely determine the deviations and fluctuations, in other words, whenever a neutralisation of the opposing forces of competition puts a stop to all determination, the thing to be determined becomes a matter of arbitrary and lawless estimation. We shall dwell on this further in the next chapter.
V.XXI.63

In the case of interest-bearing capital, everything is outward appearance: The advance of capital seems a mere transfer from the lender to the borrower; the reflux of realised capital a mere transfer back to its owner, a return payment with interest from the borrower to the lender. The same holds good of the fact, due to the capitalist mode of production, that the rate of profit is not merely determined by the relation of the profit made in one single turn-over to the advanced capital-value, but also by the length of the time of turn-over itself, so that it is a question of a profit realised on the industrial capital in definite periods of time. This likewise appears in the case of interest-bearing capital in the outward fact, that a definite interest is paid to the lender for a definite period of time.
V.XXI.64

With his customary insight into the internal connection of things, the romantic Adam Müller says ("Elemente der Staatskunst," Berlin, 1809,

p. 37): "In determining the prices of things, time is not considered; while in the determination of interest, it is principally time which is taken into account." He does not see that the time of production and the time of circulation enter into the determination of the price of commodities, and that this is precisely what determines the rate of profit for a given time of turn-over of capital, while the determination of profit for a certain time in its turn determines that of interest. His sagacity consists here, as it always does, in seeing the clouds of dust on the surface and having the presumption to declare this dust to be something mysterious and important.

Notes for this chapter

55.
At this place, some passages should be quoted, in which the economists conceive the matter in this way. "You (the Bank of England) are very large dealers in the commodity capital?" is a question presented to a director of this bank on the witness stand. (See Report on Bank Acts, H. of C., 1857.)
56.
"That a man, who borrows money with the intention of making a profit on it, should give a portion of the profit to the lender, is a self-understood principle of natural justice." (Gilbart, The History and Principles of Banking, London, 1834, p. 163.)
57.

"A house," "money," etc., are not to be loaned as "capital," if Proudhon can have his way, but to be sold as "commodities...at cost-price" (page 44). Luther stood somewhat higher than Proudhon. He knew at least that the making of profits does not depend on the manner of lending or buying: "They turn buying also into usury. But this is really too much for one bite. We must first confine ourselves to one thing, usury in lending, and after we shall have stopped that (after judgment day), we will not fail to preach against usury in buying." (Martin Luther. An die Pfarherrn wider den Wucher zu predigen, Wittenberg, 1525.)

58.

The equitableness of taking interest depends not upon a man's making or not making profit, but upon its being capable of producing profit, if rightly employed. (An Essay on the Governing Causes of the Natural Rate of Interest, wherein the sentiments of Sir W. Petty and Mr. Locke, on that head, are considered. London, 1750. P. 49.) The author of this anonymous work is J. Massie.

59.

Rich people, instead of employing their money themselves...let it out to other people for them to make profit of, reserving for the owners a proportion of the profits so made. (L. c., p. 23.)

60.

"The expression 'value' applied to currency has three meanings...secondly, currency actually in hand, compared with the same amount of currency, which will come in at some later day. Then

its value is measured by the rate of interest, and the rate of interest determined by the ratio between the amount of loanable capital and the demand for it." (Colonel R. Torrens: On the Operation of the Bank Charter Act of 1844, etc., 2nd. ed., 1847.)

61.

"The ambiguity of the term 'value of money' or 'of the currency,' when employed indiscriminately as it is, to signify both value in exchange for commodities and value in use of capital, is a constant source of confusion." (Tooke: Inquiry into the Currency Principle, p. 77.) The main confusion (implied by the question itself) that value as such (interest) should be considered as the use-value of capital, has escaped Tooke.

Part V,

Volume III Chapter XXII DIVISION OF PROFIT. RATE OF INTEREST. NATURAL RATE OF INTEREST.

V.XXII.1

THE object of this chapter, and in general all other phenomena of credit requiring our consideration later on, cannot here be analysed in detail. The competition between lenders and borrowers and the resulting minor fluctuations of the money-market fall outside of the scope of our inquiry. The circle described by the rate of interest

during the industrial cycle requires for its presentation the analysis of this cycle itself, but this is likewise beyond our intentions for the present. The same is true of the greater or lesser approximate equalisation of the rate of interest in the world market. We merely intend here to analyse the independent form of interest-bearing capital and the individualisation of interest as differentiated from profit.
V.XXII.2

Since interest is merely a part of profit, paid according to our assumption by the industrial capitalist to the money-capitalist, the maximum limit of interest is marked by profit itself, and in that case the portion pocketed by the productive capitalist would be equal to zero. Aside from exceptional cases, in which interest might be actually larger than profit and could not be paid out of profit, one might consider as the maximum limit of interest the entire profit minus that portion (to be subsequently analysed), which resolves itself into wages of superintendence. The minimum limit of interest is wholly undefinable. It may fall to any depth. But counteracting circumstances will always appear and lift it again above this relative minimum.
V.XXII.3

"The relation between the amount paid for the use of some capital and this capital itself expresses the rate of interest, measured in money." "The rate of interest depends, 1), on the rate of profit; 2), on the proportion in which the total profit is divided between the

lender and the borrower." (Economist, January 22nd, 1853.) "Since that which is paid as interest for the use of that which is borrowed is a part of the profit, which the borrowed is able to produce, this interest must always be regulated by that profit." (Massie, l. c., p. 49.)

V.XXII.4

Let us first assume, that a fixed relation exists between the total profit and that one of its parts, which has to be paid as interest to the money-capitalist. In this case it is evident, that the interest will rise or fall with the total profit, and this profit is determined by the general rate of profit and its fluctuations. For instance, if the average rate of profit were 20% and the interest one-quarter of the profit, then the rate of interest would be 5%; if the rate of profit were only 16%, the rate of interest would be 4%. With a rate of profit of 20%, the rate of interest might rise to 8%, and yet the industrial capitalist would still make the same profit as he would with the rate of profit at 16% and the rate of interest at 4%, namely 12%. If the interest should rise only to 6 or 7%, he would keep a still larger share of the profit. If the interest amounted to a constant quota of the average profit, it would follow, that to the extent that the general rate of profit would rise, the absolute difference between the total profit and the interest would increase, and to the same extent would that portion of the total profit increase, which the productive capitalist would pocket, and vice versa. Take it that the interest amounts to

one-fifth of the average profit. One-fifth of 10 is 2; difference between total profit and interest 8. One-fifth of 20 is 4; difference 20-4 = 16. One-fifth of 25 is 5; difference 25-5 = 20. One-fifth of 30 is 6; difference 30-6 = 24. One-fifth of 35 is 7; difference 35-7 = 28. The different rates of interest of 4, 5, 6, 7% would in this case always represent one-fifth of the total profit. If the rates of profit are different, then different rates of interest may represent the same aliquot parts of the total profit, or the same percentage of the total profit. With such constant proportions of interest, the industrial profit (the difference between the total profit and the interest) would be so much greater, the higher the average rate of profit would be, and vice versa.
V.XXII.5

Assuming all other conditions to be equal, in other words, assuming the proportion between interest and total profit to be more or less constant, the productive capitalist will be able and willing to pay a higher or lower interest directly proportional to the level of the rate of profit.*62 Since we have seen, that the height of the rate of profit is inversely proportional to the development of capitalist production, it follows that the high or low rate of interest in a certain country is to the same extent inversely proportional to the degree of industrial development, at least so far as differences in the rate of interest actually expresses differences in the rates of profit. And this mode of regulating interest applies even to its average.

V.XXII.6

In any event the average rate of profit is the ultimate limit determining the maximum limit of interest.
V.XXII.7

The fact that the rate of interest is related to the average profit will be considered more at length immediately. Whenever a certain whole, such as profit, is to be divided between two parties, the first thing to be considered is the magnitude of the whole. The magnitude of the profit is determined by its average rate. Assuming the average rate of profit, and thus the magnitude of profit, for a capital of a certain size, to be given (for instance 100), it is evident that the variations of interest will be inversely proportional to those of the profit remaining in the hands of the capitalist working with a borrowed capital. And the circumstances, which determine the amount of profit to be divided (the values produced by unpaid labor), differ widely from those, which determine its distribution between these two kinds of capitalists, and frequently produce effects in opposite directions.*63
V.XXII.8

If we observe the cycles of variation, in which modern industry moves along‘condition of rest, increasing activity, prosperity, overproduction, crisis, stagnation, condition of rest, etc., which fall outside of the scope of our analysis‘we shall find, that a low rate of interest

generally corresponds to periods of prosperity, or of extra profit, a rise of interest to the transition between prosperity and its reverse, and a maximum of interest up to a point of extreme usury to the period of crises.*64 With the summer of 1843 came a period of remarkable prosperity; the rate of interest, which had still been 4½% in the spring of 1842, fell to 2% in the spring and summer of 1843;*65 in September it fell even to 1½%. (Gilbart, I, p. 166); whereupon it rose to 8% and more during the crisis of 1847.
V.XXII.9

It may happen, however, that low interest is found in times of stagnation, and moderately rising interest in times of increasing activity.
V.XXII.10

The rate of interest reaches its highest point during crises, when money must be borrowed in order to meet payments at any cost. Since a rise of interest implies a fall in the price of securities, this offers at the same time a fine opportunity to people with available money-capital, who may acquire possession at cut-rate prices of such interest-bearing securities as must at least regain their average price in the regular course of things, as soon as the rate of interest falls again.*66
V.XXII.11

However, there is also a tendency of the rate of interest to fall, quite independently of the fluctuations of the rate of profit. This is due to two main causes.
V.XXII.12

I. "Let us assume that capital were never borrowed for any other but productive investments, it is nevertheless possible, that the rate of interest may vary without any change in the rate of gross profits. For, as a people progresses in the development of wealth, there arises and grows more and more a class of people, who find themselves possessed of funds through the labors of their ancestors, and who can live on the mere interest on them. Many, having actively participated in business in their youth and prime, retire, in order to live quietly in their old age on the interest of the sums accumulated by them. These two classes have a tendency to increase with the growing wealth of the country; for those who start out with a moderate capital acquire more easily an independent fortune than those, who start out with little. In old and rich countries, therefore, that portion of the national capital, whose owners do not care to invest it themselves, makes up a larger proportion of the total productive capital of society than in newly settled and poor countries. How numerous is not the class of annuity-holders in England! In proportion as the class of annuity-holders increases, that of the capital loaners increases also, for they are both the same." (Ramsay, Essay on the Distribution of Wealth, p. 201)

V.XXII.13

II. The development of the credit system, and with it the continually growing control of the industrials and merchants over the money savings of all classes of society by the co-operation of bankers, and the progressive concentration of these savings into such volumes as will enable them to serve as money-capital, must also depress the rate of interest some-what. We shall discuss this more at length later.
V.XXII.14

With reference to the determination of the rate of interest, Ramsay says that it "depends in part on the rate of gross profits, in part on the proportion in which this is divided into interest and profits of enterprise. This proportion depends on the competition between lenders and borrowers of capital. This competition is influenced, but not exclusively regulated, by the prospective rate of gross profits.*67 Competition is not exclusively regulated thereby, because on one side many are borrowing without any intention of productive investment, and because on the other the magnitude of the total loanable capital changes with the wealth of the country, independently of any change in the gross profits." (Ramsay, 1. c., p. 206, 207.)
V.XXII.15

In order to find the average rate of interest, it is necessary, 1), to calculate the average rate of interest during its variations in the great

industrial cycles; 2), to find the rate of interest in such investments as require loans of capital for a long time.
V.XXII.16

The average rate of interest prevailing in a certain country‘as differentiated from the continually fluctuating market rates‘cannot be determined by any law. In this sense there is no such thing as a natural rate of interest, such as economists speak of when mentioning a natural rate of profit and a natural rate of wages. Massie has justly said with reference to this (p. 49): "The only thing which any man can be in doubt about on this occasion, is, what proportion of these profits do of right belong to the borrower, and what to the lender; and this there is no other method of determining than by the opinions of borrowers and lenders in general; for right and wrong, in this respect, are only what common consent makes so." The balancing of demand and supply‘assuming the average rate of profit to be a fact‘ does not signify anything here. Wherever else this formula serves as an excuse (and is then practically correct) it is used to find the fundamental rule, which is independent of competition and rather determines it, this rule indicating the regulating limits, or the limiting magnitudes, of competition; this formula serves particularly as a help to those, who are bounded by the horizon of practical competition, its phenomena, and the conceptions arising from them, and who try thereby to get a rather shallow grasp of the internal connections of economic conditions within the sphere of competition. It is a method

by which to pass from the variations that go with competition to the limits of these variations. This is not so in the case of the average rate of interest. There is no reason by which the idea could be justified, that the average conditions of competition, a balance between lenders and borrowers, should secure for the lender a rate of interest of 3, 4, 5%, etc., on his capital, or a certain percentage of the gross profits, say 20% or 50%. Whenever competition as such determines anything in this matter, its determination is a matter of accident, purely empirical, and only pedantry or fantasticalness can attempt to represent this accidental character as something necessary.*68 Nothing is more amusing than to listen in the reports of Parliament of 1857 and 1858 concerning bank legislation and commercial crises to the rambling twaddle of directors of the Bank of England, London bankers, provincial bankers, and theoretical professionals, when referring to "the real rate produced." They never get beyond such commonplaces as that "the price paid by loanable capital probably varies with the supply of such capital," that "a high rate of interest and a low rate of profit cannot exist together in the long run," and similar specious platitudes.*69 Custom, legal tradition, etc., have as much to do with the determination of the average rate of interest as competition itself, so far as this rate exists not merely as an average figure, but as an actual magnitude. An average rate of profit has to be assumed as a legal rate even in many law disputes, in which interest has to be calculated. Now, if we press the inquiry, why the limits of an average rate of interest cannot be deduced from

general laws, we find the answer simply in the nature of interest. It is merely a portion of the average profit. The same capital appears in two roles, as a loanable capital in the hands of the lender, and as an industrial capital, or commercial capital, in the hands of the investing capitalist. But it performs its function as capital only once, and produces profit only once. In the process of production itself, the loanable nature of this capital does not play any role. To what extent the two parties divide the profit, in which they both share, is in itself as much a purely empirical fact belonging to the realm of accident as the division of the shares of common profit of some corporative business among different share holders by percentages. In the division between surplus-value and wages, on which the determination of the rate of profit essentially rests, the decision is made by two very different elements, labor-power and capital; these are functions of two independent variables, which limit one another; and their qualitative difference is the source of the quantitative division of the produced value. We shall see later that the same takes place in the division of surplus-value between rent and profit. But nothing of the kind occurs in the case of interest. In this case the qualitative differentiation, as we shall see immediately, proceeds rather from the purely quantitative division of the same lot of surplus-value.
V.XXII.17

From what has gone before it follows that there is no such thing as a "natural" rate of interest. But while, in distinction from the general

rate of profit, there is on one side no general law, by which the limits of the average interest, or average rate of interest, may be determined and differentiated from the continually fluctuating market rates of interest, because it is merely a question of dividing the gross profit between two possessors of capital under different titles, there is on the other side the fact that the rate of interest, whether it be the average or the prevalent market rate, appears as a uniform, definite and tangible magnitude in a very different way from the general rate of profit.*70

V.XXII.18

The rate of interest holds a similar relation to the rate of profit as the market price of a commodity does to its value. To the extent that the rate of interest is determined by the rate of profit, it is so always by the general rate of profit, not by any specific rates of profit, which may prevail in some particular lines of industry, and still less by any extra profit, which some individual capitalist may make in some particular line of business.*71 It is a fact, then, that the general rate of profit re-appears as an empirical, given, reality in the average rate of interest, although the latter is not a pure or reliable expression of the former.

V.XXII.19

It is true, that the rate of interest itself differs according to the different classes of securities offered by the borrowers and according

to the length of time for which the money is borrowed; but it is uniform within every one of these classes at a given moment. This distinction, then, does not militate against a fixed and uniform shape of the rate of interest.*72
V.XXII.20

The average rate of interest appears in every country for long epochs as a constant magnitude, because the general rate of profit‘in spite of the continual variation of the particular rates of profit, in which a variation in one sphere is offset by an opposite variation in another sphere‘varies only in long intervals. Its relative constancy is revealed in this more or less constant nature of the average rate, or common rate, of interest.
V.XXII.21

As concerns the continually fluctuating market rate of interest, it exists at any moment as a fixed magnitude, the same as the market price of commodities, because all the loanable capital as an aggregate mass is continually facing the invested capital, so that the relation between the supply of loanable capital on one side, and the demand for it on the other, decide at any time the market level of interest. This is so much more the case, the more the development and simultaneous concentration of the credit system impregnates the loanable capital with a general social character, and throws it all at one time on the market. On the other hand, the general rate of profit always exists as

a mere tendency, as a movement to compensate specific rates of profit. The competition between capitalists‘which is itself this movement toward an equilibrium‘consists in this case in their activity of gradually withdrawing capital from spheres, in which the profit stays for a long time below the average, and in the same way taking capital into spheres, in which the profit is above the average. Or it may also consist in their distributing additional capital gradually and in varying proportions between these spheres. It is always a matter of a continual variation between supply and demand of capital with reference to different spheres, never a simultaneous mass effect, as it is in the determination of the rate of interest.
V.XXII.22

We have seen that interest-bearing capital, although a category absolutely different from a commodity, becomes a peculiar commodity, so that interest becomes its price, which is fixed at any time by supply and demand, just as the market price of an ordinary commodity is fixed. The market rate of interest, while continually oscillating, appears therefore at any moment just as constantly fixed and uniform as the prevailing market price of commodities. The money-capitalists offer this commodity, and the investing capitalists buy it and make a demand for it. This does not take place in the equalisation of profits toward a general rate of profit. If the prices of commodities in a certain sphere are below or above the price of production (leaving aside any oscillations, which are found in every

business and are due to fluctuations of the industrial cycles), a balance is effected by an expansion or restriction of production. This signifies an expansion or restriction of the quantities of commodities thrown on the market by industrial capitalists, by means of immigration or emigration of capital to and from particular spheres. It is by such a compensation of the average market prices of commodities to prices of production that the deviations of specific rates of profit from the general, or average, rate of profit are corrected. This process does not, and cannot, at any time assume the appearance as though the industrial or mercantile capital as such were commodities seeking a buyer, but it does in the case of interest-bearing capital. To the extent that this process is perceptible, it is so only in the oscillations and compensations of the market prices of commodities to prices of production, not in any direct fixation of the average profit. The general rate of profit is actually determined, 1), by the surplus-value produced by the capital; 2), by the proportion of this surplus-value to the value of the total capital; and, 3), by competition, but only to the extent that this is a movement, by which capitals invested in particular spheres seek to draw equal dividends out of this surplus-value in proportion to their relative magnitudes. The general rate of profit, then, derives its determination actually from causes, which are quite different and far more profound than those of the market rate of interest, which is directly and immediately determined by the proportion between supply and demand. It is, therefore, not such a tangible and obvious fact as the rate of interest.

The particular rates of interest in the different spheres of production are themselves more or less unsettled; but so far as they are perceptible, it is not their uniformity, but their differences, which appear. The general rate of profit itself appears only as the minimum limit of profit, not as the empirical and directly visible shape of the actual rate of profit.
V.XXII.23

In emphasizing this difference between the rate of interest and the rate of profit, we still leave out of consideration the following two circumstances, which favor the consolidation of the rate of interest: 1), The historical pre-existence of interest-bearing capital and the existence of a traditionally sanctioned general rate of interest; 2), the far greater direct influence exerted by the world market on the fixation of the rate of interest, independently of the economic conditions of a certain country, compared to its influence on the rate of profit.
V.XXII.24

The average profit does not appear as a directly existing fact, but merely as a final result of the compensation of opposite fluctuations, to be ascertained by analysis. Not so the rate of interest. It is, at least in its local validity, a daily fixed thing, a fact which serves even to industrial and mercantile capitals as a prerequisite and figure in their calculations. It becomes a general faculty of every sum of money

of 100 pounds sterling to yield 2, 3, 4, 5%. Meteorological reports do not register the stand of the barometer and thermometer more accurately than the reports of the Bourse do the stand of the rate of interest, not for this or that capital, but for the money-capital on the market, for the available loanable capital in general.
V.XXII.25

On the money market only lenders and borrowers face one another. The commodity has the same form, money. All specific forms of capital according to its investment in particular spheres of production or circulation are here blotted out. It exists here in the undifferentiated, homogenous, form of independent value, money. The competition of the individual spheres ceases here. They are all thrown together as borrowers of money, and capital likewise faces all of them in a form, in which it is as yet indifferent to its definite investment in this or that specific manner. The character worn by industrial capital only in its movement and competition between individual spheres, the character of a common capital of a class comes into evidence here in full force by the demand and supply of capital. On the other hand, money-capital on the money market has actually that form, in which it may be distributed as a common element among the capitalists in the various spheres, regardless of its specific employment, as the requirements of production in each individual sphere may dictate. Add to this that with the development of large scale industry money-capital, so far as it appears on the market, is not represented by

some individual capitalist, not by the owner of this or that fraction of the capital on the market, but assumes more and more the character of an organised mass, which is far more directly subject to the control of the representatives of social capital, the bankers, than actual production is. Under these circumstances, not only the demand for loanable capital is expressed with the full force of a class, but also its supply appears as loanable capital in masses.
V.XXII.26

These are some of the reasons, why the general rate of profit appears as a vanishing shape of mist compared to the definite rate of interest, which, while fluctuating in its magnitude, yet faces all borrowers as a fixed fact, because it varies uniformly for all of them. In like manner the variations in the value of money do not prevent it from having the same value for all commodities. In like manner the market prices of commodities fluctuate daily, yet this does not prevent them from being reported daily. In like manner, the rate of interest is regularly reported as "the price of money." It is so for the reason that capital itself is here offered in the form of money as a commodity. The fixation of its price is thus a fixation of its market price, as it is with all other commodities. Thus the rate of interest always appears as the general rate of interest, as so much for so much money, as a definite quantity. Not so the rate of profit. It may vary even within the same sphere for commodities with the same price, according to the different conditions under which different

capitals produce the same commodity. For the rate of profit of the individual capital is determined, not by the market price of a commodity, but by the difference between the market-price and the cost-price. And these different rates of profit, first within the same sphere and then between different spheres themselves, can be balanced only by continual fluctuations.

V.XXII.27

(Note for later elaboration): A specific form of credit. It is known that when money serves as a means of payment instead of as a means of purchase, the commodity is transferred, but its value is not realised until later. If payment is not made until after the commodity has again been sold, then this sale does not seem to be the result of the purchase, but it is by this sale that the purchase is realised. In other words, the sale becomes a means of purchase.‘Secondly; Titles to debts, bills of exchange, etc., become means of payment for the creditor.‘Thirdly: The compensation of titles to debts replaces the money.

Notes for this chapter

62.
"The natural rate of interest is governed by the profits of trade to particulars." (Massie, l. c., p. 51.)

63.

At this place the manuscript contains the following statement: "The course of this chapter shows, that it is preferable, before analysing the laws of the distribution of profits, to ascertain first the way in which the division of quantities becomes one of quality. In order to make a transition to this end from the preceding chapter, nothing is needed but the provisional assumption, that interest is a certain indefinite portion of the profit.

64.

"In the first period, immediately after a time of depression, money is plentiful without any speculation; in the second period money is plentiful and speculation flourishing; in the third period speculation begins to let up and money is in demand; in the fourth period money is scarce and the depression starts in." (Gilbart, l. c., p. 144.)

65.

Tooke explains this by "the accumulation of surplus capital necessarily accompanying the scarcity of profitable employment for it in previous years, by the release of hoards, and by the revival of confidence in commercial prospects." (History of Prices from 1839 till 1847. London, 1848, p. 54.)

66.

"An old customer of a banker was refused a loan upon a 200,000 pounds sterling bond; when about to leave to make known his suspension of payment, he was told there was no necessity for the step, under the circumstances the banker would buy the bond at

150,000 pounds sterling." (The Theory of the Exchanges. The Bank Charter Act of 1844, etc. London, 1869, p. 80.)

67.

Since the rate of interest is on the whole determined by the average rate of profit, extraordinary swindling may often go hand in hand with a low rate of interest. Instance the railroad swindle in the summer of 1844. The rate of interest of the Bank of England was not raised to 3% until October 16th, 1844.

68.

For instance, J. G. Opdyke, in his "Treatise on Political Economy" (New York, 1851) makes a very unsuccessful attempt to explain the general extension of a rate of interest of 5% by eternal laws. Still more naively proceeds Mr. Karl Arnd in "Die naturgemässe Volkswirthschaft gegenüber dem Monopoliengeist und dem Kommunismus, etc., Hanau, 1845." There we may read: "In the natural course of the production of goods there is only one phenomenon, which, in the fully settled countries, seems to be destined to regulate in some measure the rate of interest; this is the proportion, in which the quantities of wood of the European forests increase through their annual new growth. This new growth takes place, quite independently of their exchange value, at the rate of 3 or 4 to 100." (How queer that the trees should arrange for their new growth independently of their exchange value!) "According to this a fall of the rate of interest below its present level in the richest countries cannot be expected." Page 124. (He means, because the

new growth of the trees is independent of their exchange value, even though their exchange value may depend on their new growth.) This deserves to be called "the primordial rate of forest interest." Its discoverer has made further meritorious contributions in this work to "our science" as the "philosopher of the dog tax."

69.

The Bank of England raises and lowers the rate of its discount, always, of course, with due consideration of the rate prevailing in the open market, according to the imports and exports of gold. "By which gambling in discounts, by anticipation of the alterations in the bank rate, has now become half the trade of the great heads of the money centre"‘that is, of the London money market. (The Theory of the Exchanges, etc., p. 113.)

70.

"'The price of commodities fluctuates' continually; they are all made for different uses; the money serves for all purposes. The commodities, even those of the same kind, differ according to quality; cash money is always of the same value, or at least is assumed to be so. Thus it happens that the price of money, which we designate by the term interest, has a greater stability and uniformity than that of any other thing." (J. Steuart, Principles of Political Economy, French translation, 1789, IV, p. 27.)

71.

"This rule of dividing profits is not, however, to be applied particularly to every lender and borrower, but to lenders and borrowers in

general...remarkably great and small gains are the reward of skill and the want of understanding, which lenders have nothing at all to do with; for as they will not suffer by the one, they ought not to benefit by the other. What has been said of particular men in the same business is applicable to particular sorts of business; if the merchants and tradesmen employed in any one branch of trade get more by what they borrow than the common profits made by other merchants and tradesmen of the same country, the extraordinary gain is theirs, though it required only common skill and understanding to get it; and not the lenders,' who supplied them with money...for the lenders would not have lent their money to carry on any business or trade upon lower terms than would admit of paying so much as the common rate of interest; and therefore they ought not to receive more than that, whatever advantage may be made by their money." (Massie, 1. c., p. 50, 51.)

72.

[Bank rate 5%. Market rate of discount 60 days' drafts, 5 3/8%. The same for 3 months' drafts 3½%. The same for 6 months' drafts 3 5/16%. Loans to bill brokers, day to day, 1 to 2%. The same for one week 3%. Last rate for fortnightly loans to stockholders 4¾ to 5%. Deposit allowance (banks) 3½%. The same (discount houses) 3 to 3¼%. How large this difference may be for one and the same day is shown by the preceding figures of the rate of interest of the London money market on December 9th, 1889, taken from the city article of

the Daily News of December 10th. The minimum is 1%, the maximum 5%. F. E.]

Part V,

Volume III Chapter XXIII INTEREST AND PROFIT OF ENTERPRISE.

V.XXIII.1

INTEREST, as we have seen in the two preceding chapters, seems to be originally, is originally, and remains in fact merely a portion of profit, of surplus-value, which the investing capitalist, whether industrial or commercial, has to pay over to the owner and lender of money-capital whenever he uses loan capital instead of his own. If he employs only his own capital, no such division of profit takes place; it is all his. In fact, to the extent that the owners of capital employ it themselves in the process of reproduction, they do not compete in the determination of the rate of interest. This alone shows that the category of interest, an impossibility without a determination of the rate of interest, is alien to the movements of industrial capital itself.
V.XXIII.2

"The rate of interest may be defined to be that proportional sum which the lender is content to receive, and the borrower to pay, for a

year or for any longer or shorter period for the use of a certain amount of moneyed capital...when the owner of capital employs it actively in reproduction, he does not come under the head of those capitalists, the proportion of whom, to the number of borrowers, determines the rate of interest." (Th. Tooke, History of Prices, Newmarch ed. London, 1857, II, p. 355.) It is indeed only the separation of capitalists into money-capitalists and industrial capitalists, which transforms a portion of the profit into interest, which creates the category of interest at all; and it is only the competition between these two kinds of capitalists which creates the rate of interest. V.XXIII.3

So long as capital serves in the process of reproduction‘even assuming that it belongs to the industrial capitalist himself, so that he has no need of paying it back to some lender‘just so long the capitalist has at his disposal as a private individual, not this capital itself, but only the profit, which he may spend as revenue. So long as his capital performs the functions of capital, it belongs to the process of reproduction, it is tied up in that process. He is indeed its owner, but this ownership does not enable him to dispose of it in some other way, so long as he uses it as capital for the exploitation of labor. It is the same with the money-capitalist. So long as his capital is loaned out and serves as money-capital, it brings him as interest a portion of the profit, but he cannot dispose of the principal. This becomes evident, whenever he loans his capital, say, for one year, or longer,

and receives interest at certain stipulated times without recovering his principal. But even the return of the principal does not make any difference here. If he gets it back, then he must always loan it out again, so long as he expects it to produce the effects of capital, in this case of money-capital, for him. While he is keeping it in his own hands, it collects no interest, it does not act in the capacity of capital; and so long as it gathers interest and serves as capital, it is not in his hands. This accounts for the possibility to loan capital for all eternity. The following remarks of Tooke against Bosanquet are, therefore, entirely wrong. He quotes Bosanquet (Metallic, Paper, and Credit Currency, p. 73): "If the rate of interest were depressed to 1%, then borrowed capital would be almost on a par with owner's capital." Tooke makes the following comment on this: "That a capital borrowed at this, or even at a lower rate, should be considered as being almost on a par with one's own capital is such a strange contention, that it would hardly deserve any serious consideration, did it not come from so intelligent a writer, who is so well informed on particular points of his subject. Has he overlooked the fact, or does he hold it to be so unimportant, that his assumption implies the condition of return payment?" (Th. Tooke, An Inquiry into the Currency Principle, 2nd. edition, London, 1844, p. 80.) If interest were equal to zero, then the industrial capitalist working with a borrowed capital would be on a par with a capitalist working with his own capital. Both of them would pocket the same average profit, and capital, whether borrowed or the owner's, serves as capital only to the

extent that it produces profit. The condition of return payment would not alter this in the least. The more the rate of interest approaches zero, falling, for instance, to 1%, the more borrowed capital is placed on a par with owner's capital. So long as money-capital is expected to act in the capacity of money-capital, it must always be loaned out again and again, and this must take place at the prevailing rate of interest, say 1%, and always to the same class of industrial and commercial capitalists. So long as these perform the functions of capitalists, the only difference between one working with a borrowed and one working with his own capital is that the one has to pay interest and the other has not; that the one pockets the whole profit p, and the other only p‘i, profit minus interest. To the extent that the interest approaches zero, p‘z becomes equal to p, and to the same extent do both capitals stand on a par. The one must pay back the capital and borrow it again; but the other, so long as his capital is expected to perform its function, must likewise advance it again and again to the process of production and cannot dispose of it freely without any dependence upon this process. The only remaining difference between the two is the obvious one that the one is the owner of his capital and the other is not.
V.XXIII.4

The question which arises here is this: How is it that this purely quantitative division of profit into net profit and interest turns into a qualitative one? In other words, how is it that even the capitalist who

employs only his own capital, and not a borrowed one, ranges a portion of his gross profit under the specific category of interest and calculates it separately as such? And furthermore, why is all capital, whether borrowed or not, differentiated in itself as interest-bearing capital from net profit producing capital?
V.XXIII.5

It is understood that not every accidental quantitative division of profit turns in this manner into a qualitative one. For instance, some industrial capitalists associate for some business and divide the profits among themselves according to some legal agreement. Others carry on their business, each by himself, without any associate. These last do not calculate their profit under two heads, one part as individual profit, the other as profits of the company for associates who do not exist. In this case the quantitative division does not turn into a qualitative one. It takes place, when the ownership is vested accidentally in several juridical personalities. It does not take place, when this is not the case.
V.XXIII.6

In order to answer this question, we must dwell a little longer on the actual point of departure of the formation of interest; that is, we must take our departure from the assumption, that the money-capitalist and the industrial capitalist really face one another, not merely as legally different persons, but as persons playing entirely different roles in the

process of reproduction, or as persons in whose hands the same capital really passes through a twofold and wholly different movement. The one merely loans it, the other employs it productively.
V.XXIII.7

For the productive capitalist, who works with a borrowed capital, the gross profit falls into two parts, namely into the interest to be paid by the lender and the surplus over the interest forming his own share of the profit. If the general rate of profit is given, then this last portion is determined by the rate of interest; if the rate of interest is given, then this last portion is determined by the general rate of profit. And furthermore: Whatever may be the divergence in any individual case of the gross profit, the actual magnitude of value of the total profit, from the average profit, it does not alter the fact that the portion belonging to the investing capitalist is determined by the interest, since this is fixed by the general rate of interest (aside from special legal stipulations) and assumed to be paid beforehand, before the process of production begins, and before its result, the gross profit, has been made. We have seen that the peculiar and specific product of capital is surplus-value, or more closely defined, profit. But for the capitalist working with a borrowed capital it is not the profit, but the profit minus the interest, that portion of the profit which remains for him after the interest has been deducted. This portion of the profit necessarily appears to him as the product of a capital performing its function; and so far as he is concerned it is really so, because he is

the representative of capital in action. He is its personification to the extent that it is in function, and it performs its function to the extent that it is profitably invested in industry or commerce and engaged, through its employer, in such operations as are prescribed by the line of its industry. In distinction from interest, which he has to pay out of the gross profits to the lender, the remaining portion of the profit, which he pockets, necessarily assumes the form of industrial or commercial profit, or, to designate it by a term comprising both of them, the form of profit of enterprise. If the gross profit is equal to the net profit, then the magnitude of this profit of enterprise is exclusively determined by the rate of interest. If the gross profit varies from the average profit, then its difference from the average profit (after deducting the interest from both of them) is determined by all constellations causing a temporary deviation, either of the rate of profit in any particular sphere from the general rate of profit, or of the profit made by some individual capitalist in a certain sphere from the average profit of this sphere. Now, we have seen, that the rate of profit within the process of production itself does not depend merely on the surplus-value, but also on many other circumstances, for instance, on the purchase prices of the means of production, on methods more productive than the average, on economies in constant capital, etc. And aside from the price of production, it depends on special constellations of the market, and in every business transaction on the greater or lesser smartness and thrift of the individual capitalists, whether, and to what extent, a man will buy or sell above

or below the price of production and thus appropriate in the process of circulation a greater or smaller portion of the total surplus-value. At any rate the quantitative division of the gross profit turns here into a qualitative one, and it does so all the more as the quantitative division itself depends on the nature of thing that is to be divided, on the manner in which the capitalist manages his capital, and on the amount of gross profit it yields for him in his capacity as active capitalist. The investing capitalist is here assumed not to be the owner of the capital. The ownership of capital is vested in the money-capitalist, who stands opposed to him. The interest, which he pays to the lender, thus appears as that portion of the gross profit, which is absorbed by the ownership of capital as such. In distinction therefrom, that portion of the profit, which falls to the share of the investing capitalist, appears then as profit of enterprise, arising solely from the operations, or functions, which he performs with the capital in the process of reproduction, particularly of those functions, which he performs as the impersonator of enterprise in industry or commerce. From his point of view, the interest appears merely as the fruit of the ownership of capital, of capital "itself" abstracted from the process of capital in reproduction, of a capital not "working," not performing its function; while profit of enterprise appears to him as the exclusive fruit of the functions, which he performs with the capital, a fruit of the movements and performances of capital, of performances, which appear to him as his own activity as differentiated from the inactivity, the non-participation, of the money-capitalist in the process of

production. This qualitative separation of the two portions of gross profit, which makes interest appear as the fruit of abstract capital, of the ownership of capital outside of the process of production, and profit of enterprise as the fruit of capital performing its function in the process of production, of the active role played by the employer of capital in the process of reproduction, this qualitative separation is by no means merely a subjective point of view of the money-capitalist on one side and of the industrial capitalist on the other. It rests upon an objective fact, for the interest flows into the hands of the money-capitalist, the lender, the mere owner of capital, who represents only capital property before the process of production and outside of it; while the profit of enterprise flows only into the hands of the investing capitalist, who is not the owner of the capital.
V.XXIII.8

In this way, both the industrial capitalist working with borrowed capital and the money-capitalist not working himself with his capital play a role, in which a merely quantitative division of the gross profit between two persons having two different legal titles to the same capital and to the profit produced by it turns into a qualitative division. One portion of the profit appears now as interest, as a fruit coming to capital in one of its forms; the other portion appears as a specific fruit of capital in an opposite form, and thus as profit of enterprise. One appears as the fruit of mere ownership of capital, the other as a fruit of the performance of the function of capital, as a

fruit of capital in process, of the functions performed by the active capitalist. And this ossification and individualisation of the two parts of the gross profits among themselves, as though they were derived from two essentially different sources, now becomes a fixture for the entire capitalist class and the total capital. And this takes place regardless of whether the capital employed by the active capitalist is borrowed or not, and whether the capital belonging to the money-capitalist is employed by himself or not. The profit of every capital, and consequently the average profit established by a mutual compensation of capitals, is separated into two qualitatively different, separately individualised, and mutually independent parts, to wit, interest and profit of enterprise, both of which are determined by particular laws. The capitalist working with his own capital divides the gross profit into interest due to himself as its owner lending it to himself, and into profit of enterprise due to himself as an active capitalist performing his function, just as does the capitalist working with a borrowed capital. For this division, in its qualitative aspects, it becomes immaterial whether the capitalist really has to divide his profit with another or not. The employer of capital, even when working with his own capital, falls apart into two personalities, into the mere owner of capital and the employer of capital; his capital itself, with reference to the categories of profit which it yields, falls apart into capital property outside of the process of production and yielding interest of itself, and capital in the process of production yielding profit of enterprise through its function in the process.

V.XXIII.9

Interest, then, becomes so firmly established, that it no longer appears as a division of gross profits, to which production is indifferent and which takes place only occasionally when the industrial capitalist works with the capital of some other man. Even when he works with his own capital, his profit is separated into interest and profit of enterprise. Thus a merely quantitative division turns into a qualitative one. It takes place without regard to the fact, whether the industrial capitalist is, or is not, the owner of the capital employed by him. It is no longer a question of different quota of profit assigned to different persons, but of two different categories of profit holding different relations to the capital, being related to different forms of capital.
V.XXIII.10

It is a simple matter, in view of the foregoing remarks, to explain, why this character of qualitative separation becomes established for the total social capital and the entire capitalist class, as soon as the separation of gross profits into interest and profits of enterprise has assumed its qualitative aspect.
V.XXIII.11

1) This follows from the simple empirical circumstance, that the majority of the industrial capitalists, even if in different proportional numbers, work with their own and with borrowed capital, and that the

proportion between self-owned and borrowed capital changes in different periods.
V.XXIII.12

2) The transformation of a portion of the gross profits into the shape of interest converts the other portion into profit of enterprise. The latter is indeed but the antagonistic form assumed by the excess of the gross profit over the interest, as soon as interest exists as an independent category. The entire analysis of the problem, how gross profit is differentiated into interest and profit of enterprise, resolves itself into the inquiry, how a portion of the gross profits becomes universally ossified and individualised in the shape of interest. Now, historically, interest-bearing capital exists as a complete, traditional form, and with it interest as a ready subdivision of the surplus-value produced by capital, long before the capitalist mode of production and the conceptions of capital and profit belonging to it existed. Thus it is that popular conception still regards money-capital, interest-bearing capital, as typical capital, as capital par excellence. Thus, also, we find up to the time of Massie the prevailing idea, that it is money as such, which is paid in interest. The fact that loaned capital yields interest, whether it is actually employed as interest or not‘even when borrowed only for consumption‘lends strength to the idea of the independence of this form of capital. The best proof of the independence, which interest seemed to have with reference to profit and interest-bearing capital with reference to industrial capital, during the first periods of

the capitalist mode of production, is that it was not until the middle of the 18th century that Massie, and after him Hume, discovered the fact that interest is but a portion of the gross profit, and that such a discovery was necessary at all.
V.XXIII.13

3) Whether the industrial capitalist works with his own or with borrowed capital, it does not alter the fact that the class of money-capitalists face him as a special class of capitalists, money-capital as an independent form of capital, and interest as the independent form of surplus-value peculiar to this specific capital.
V.XXIII.14

Qualitatively speaking, interest is surplus-value supplied by the mere ownership of capital, yielded by capital as such, even though its owner remains outside of the process of reproduction. It is surplus-value realised by capital outside of its process.
V.XXIII.15

Quantitatively speaking, that portion of profit, which forms interest, does not seem to be related to industrial or commercial capital as such, but to money-capital, and the rate of this portion of surplus-value, the rate of interest, fortifies this relation. For, in the first place, the rate of interest, despite its dependence upon the general rate of profit, is independently determined, and, in the second place, it

appears with all its variations as a fixed, uniform, tangible and always given relation, just like the market-prices of commodities, compared to the intangible rate of profit. If all capital were in the hands of the industrial capitalists, there would be no interest and no rate of interest. The independent form assumed by the quantitative division of gross profit creates the qualitative one. If the industrial capitalist compares himself to the money-capitalist, only his profit of enterprise distinguishes him from the other man, the excess of his gross profit over the average interest, the latter being empirically given by means of the rate of interest. On the other hand, if he compares himself to the industrial capitalist working with his own, instead of borrowed capital, the other differs from him only as a money-capitalist by pocketing the interest instead of paying it over to some one else. On either side the portion of the gross profit differing from the interest appears to him as profit of enterprise, and interest itself as a surplus-value yielded by capital as such, which it would yield even without any productive employment.
V.XXIII.16

This is practically correct for the individual capitalist. He has the choice, whether he wants to invest his capital as an interest-bearing one or as a productive one, regardless of whether it exists in the form of money-capital from the out-set, or whether it has to be converted into money-capital. But to make this conception a general one and apply it to the total capital of society, as some vulgar

economists do, who even go so far as to regard this capital as the source of profit, is, of course, preposterous. The idea of a conversion of the total capital of society into money-capital without the existence of people, who shall buy and utilise the means of production, which form the total capital with the exception of relatively small portion existing in the shape of money, is sheer nonsense. It implies the additional nonsense, that capital could yield interest on the basis of capitalist production without performing any productive function, in other words, without producing any surplus-value, of which interest would be but a part; that the capitalist mode of production could run its course without any capitalist production. If an excessively large number of capitalists were to convert their capital into money-capital, it would result in an extraordinary depreciation of money-capital and an extraordinary fall of the rate of interest; many would at once be face to face with the impossibility of living on their interest, and would be compelled to retransform themselves into industrial capitalists. But we repeat that it is a fact for the individual capitalist. For this reason, he necessarily considers that part of his average profit, which is equal to the average interest, as a fruit of his capital as such, apart from the process of production, even when he works with his own capital; and he differentiates from this portion, from this interest, that surplus of the gross profit, which constitutes his profit of enterprise.

V.XXIII.17

4) (A blank in the manuscript.)
V.XXIII.18

We have seen that that portion of the profit, which the investing capitalist has to pay to the mere owner of borrowed capital, converts itself into the independent form of a portion of profit, which all capital as such, whether borrowed or not, yields under the name of interest. How large that portion shall be is determined by the quotation of the average rate of interest. Its origin does not show itself any more in anything but the fact that the investing capitalist, when owner of his capital, no longer competes in the determination of the rate of interest, at least not actively. The purely quantitative division of profit between two persons having different legal titles to it has turned into a qualitative division, which seems to arise from the nature of capital and profit itself. For, as we have seen, as soon as a portion of the profit generally assumes the form of interest, the difference between the average profit and the interest, or the portion of profit exceeding the interest, assumes a form antagonistic to interest, that of profit of enterprise. These two forms, interest and profit of enterprise, exist only as opposites. They are not reduced to the surplus-value, of which they represent proportional parts cast in different moulds, but are merely referred to one another. Because one portion converts itself into interest, the other portion appears as profit of enterprise.
V.XXIII.19

By profit we always mean average profit here, since the variations of individual profit and of profit in different spheres, due to the fluctuations of the competitive struggle and other circumstances affecting the distribution of the average profit, or surplus-value, do not concern us in this analysis. This applies quite generally to the foregoing inquiry.
V.XXIII.20

Interest is then net profit, as Ramsay calls it, which capital as such yields, either for the mere lender remaining outside of the process of reproduction, or for the owner employing his capital productively. For this latter capitalist also, capital yields this net profit, not in his capacity as a productive capitalist, but of money-capitalist and lender of his own capital as an interest-bearing one to himself as an investing capitalist. Just as the conversion of money, and of value in general, into capital is the constant result of capitalist production, so its existence in the form of capital is its constant prerequisite. By its ability to transform itself into means of production, it commands continually unpaid labor and thereby transforms the process of production and circulation of commodities into a production of surplus-value for its owner. Interest is, therefore, merely the expression of the fact, that value in general, in other words, value representing materialised labor in its general social form, or value assuming the form of means of production in the actual process of production, faces living labor-power as an independent power, and is a means of

appropriating unpaid labor; and that it is such a power, because it represents the property of another in opposition to the laborer. But on the other hand, this opposition to wage-labor is obliterated in the form of interest; for interest-bearing capital as such has not wage-labor, but productive capital for its object. The lending capitalist faces as such the capitalist performing his actual function in the process of reproduction, not the wage-worker, who is expropriated from the means of production under capitalist production. Interest-bearing capital represents capital as ownership compared to capital as a function. But to the extent that capital does not perform its function, it does not exploit the laborers and does not come into opposition to labor.
V.XXIII.21

On the other hand, profit of enterprise is not in opposition to wage-labor, but only to interest.
V.XXIII.22

1) Assuming the average profit to be given, the rate of profit on enterprise is not determined by wages, but by the rate of interest. It is high or low inversely as the rate of interest is.*73
V.XXIII.23

2) The investing capitalist derives his claim to profits of enterprise, and consequently the profit of enterprise itself, not from his ownership

of capital, but from its production function as distinguished from the form, in which it is only inert property. This appears as an obviously existing contrast, whenever he is working with a borrowed capital, so that interest and profits of enterprise each go to different persons. The profit of enterprise arises from the function of capital in the process of reproduction, it is a result of the operations by which the investing capitalist promotes this function of industrial and commercial capital. But to be a representative of invested capital is not a sinecure like the representation of interest-bearing capital. On the basis of capitalist production, the capitalist directs the processes of production and circulation. The exploitation of productive labor requires exertion, whether he performs it himself or has it performed by some one else in his name. In distinction from interest, his profit of enterprise appears to him as independent of the ownership of capital, it seems to be the result of his function as a non-proprietor‘a laborer. V.XXIII.24

Under these circumstances his brain necessarily conceives the idea, that his profit of enterprise, far from being in opposition to wage-labor and representing only the unpaid labor of others, is rather itself wages of labor, wages of superintendence of labor. These wages are superior to those of the common laborer, 1) because they pay for more complicated labor, 2) because the capitalist pays them to himself. The fact that his function as a capitalist consists in creating surplus-value, which is unpaid labor, and to create it under the most economical

conditions, is entirely forgotten over the contrast, that the interest falls to the share of the capitalist, even if he does not perform any capitalist function and is merely the owner of capital; and that, on the other hand, the profit of enterprise falls to the share of the investing capitalist, even if he is not the owner of the capital, which he employs. The antagonistic form of the two parts, into which profit, or surplus-value is divided, leads him to forget, that both parts are surplus-value, and that this division does not alter the nature, origin, and living conditions of surplus-value.
V.XXIII.25

In the process of reproduction, the investing capitalist represents capital as the property of another in opposition to the wage-laborers, and the money-capitalist, represented by the investing capitalist, shares in the exploitation of labor. The fact, that the investing capitalist can perform his function or employ means of production as capital only as the personification of the means of production in opposition to the laborers, is forgotten over the antagonism between the function of capital in the process of reproduction and the mere ownership of capital outside of the process of reproduction.
V.XXIII.26

In fact, the forms assumed by the two parts of profit, of surplus-value, when divided into interest and profit of enterprise, do not express their relation to labor, because their relation refers only to

themselves and to the profit, or rather to the surplus-value as a whole compared to them as parts of this unit. The proportion in which the profit is divided, and the different legal titles, by which this division is sanctioned, are based on the assumption that profit is already in existence. If, therefore, the capitalist is the owner of the capital, which he employs, he pockets the whole profit, or surplus-value. It is immaterial to the laborer, whether the capitalist pockets the whole profit, or whether he has to pay over a part of it to some other person, who has a legal claim to it. The reasons for dividing the profit among two kinds of capitalists thus turn surreptitiously into reasons for the existence of the surplus-value to be divided, which the capital as such draws out of the process of reproduction quite apart from any subsequent division. Seeing that the interest is opposed to the profit of enterprise, and the profit of enterprise to the interest, that they are both opposed to one another, but not to labor, it follows that both profit of enterprise plus interest, in other words, the total profit, and further the surplus-value, are derived‘from what? From the antagonistic form of its two parts! But the profit is produced, before this division takes place, and before there can be any mention of it.
V.XXIII.27

Interest-bearing capital stands the test of such only to the extent that borrowed money is actually converted into capital, and that a surplus is produced with it, of which the interest is a part. But this does not

militate against the fact, that the faculty of drawing interest is innate in it outside of the process of production. So does labor-power evince its faculty of producing value only so long as it is employed and materialised in the labor-process; yet this does not argue against the fact, that labor-power is potentially a faculty of creating values, which does not arise out of the mere process of production, but is rather antecedent to it. As a faculty creating value, it is bought. One might also buy it without setting it to work productively. It may be used for purely personal ends, for instance, for personal service, etc. So it is with capital. It is the borrower's affair, whether he employs it as capital, actually setting in motion its inherent faculty of producing surplus-value. What he pays, is in either case the surplus-value inherently latent in the commodity capital.

V.XXIII.28

Let us now consider profit of enterprise more in detail.
V.XXIII.29

Since the specific social faculty of capital under capitalist production, that of being property in the hands of one and yet commanding the labor-power of another, becomes fixed, so that interest appears as a part of the surplus-value produced by capital in this interrelation, the other part of the surplus-value, the profit of enterprise, must necessarily appear as derived, not from capital as such, but from the

process of production, separated from its social faculty, which is already expressed as a distinct mode of existence by the term interest in capital. Now, separated from capital, the process of production is simply a labor-process. Hence the industrial capitalist as differentiated from the owner of capital does not appear, in this case, as a functionary of capital, but as a functionary separated from capital, as a simple agent of the labor-process, as a laborer, and specifically as a wage-laborer.
V.XXIII.30

Interest itself expresses precisely the existence of the conditions of labor in the form of capital, in their social antagonism to labor, and in their transformation into personal powers in opposition to labor and dominating it. Interest represents the mere ownership of capital as a means of appropriating the products of the labor of others. But it represents this character of capital as something, which belongs to it outside of the process of production, and which is not by any means a result of the specifically capitalist nature of this process of production itself. Interest places this process in such a light, that it does not seem opposed to labor, but rather without any relation to labor and simply the relation of one capitalist toward another. It thus assumes a form which places it outside of the relation of capital toward labor, and renders it indifferent toward this relation. In interest, then, which is that specific form of profit, in which the antagonistic character of capital assumes an independent form, this is

done in such a way, that the antagonism here appears completely obliterated and left out of consideration. Interest is a relation between two capitalists, not between a capitalist and a laborer.
V.XXIII.31

On the other hand, this form of interest bestows upon the other portion of profit the qualitative form of profit of enterprise, and, further on, of wages of superintendence. The specific functions, which the capitalist as such has to perform, and which precisely differentiate him from the laborer and bring him into opposition to the laborer, are presented as mere functions of labor. He creates surplus-value, not because he performs the work of a capitalist, but because he also works aside from his capacity as a capitalist. This portion of surplus-value is thus no longer surplus-value, but its opposite, an equivalent for labor performed. Owing to the fact that the estranged character of capital, its antagonism to labor, has been relegated to a place outside of the actual process of exploitation, namely to the interest-bearing capital, this process of exploitation itself appears as a simple labor process, in which the exploiting capitalist performs merely a different kind of labor than the laborer. In this way the labor of exploitation and the exploited labor both appear as labor, as identical. The labor of exploitation is labor just as well as the labor which is exploited. It is the interest which represents the social form of capital, but it does so in a neutral and indifferent way. It is the profit of enterprise which represents the economic function of capital, but it does so in a way,

which takes no cognizance of the definite capitalist character of this function.
V.XXIII.32

In the present case, what passes in the consciousness of the capitalist is quite similar to what passes in the case of the fluctuations for which the capitalist makes allowance in the equalisation of the average profits, as indicated in part II of this volume. These compensating causes, which exert a determining influence on the distribution of the surplus-value, are distorted by the capitalist conception into originating causes and subjective justifications of profit itself.
V.XXIII.33

The conception of profit of enterprise in the shape of wages of superintendence of labor, arising from the antagonism of profit of enterprise to interest, is further strengthened by the fact, that a portion of the profit may indeed be separated, and is separated in reality, as wages, or rather the reverse, that a portion of the wages appear under capitalist production as a separate portion of the profit. Already Adam Smith indicated, that this portion assumes its pure form, independently of profit and wholly separated from it (as the sum of interest and profit of enterprise), and likewise separated from that portion of the profit, which remains in the shape of profit of enterprise after the deduction of the interest, in the salary of the

superintendent in those lines of business, whose size, etc., permits a sufficient division of labor to justify a special salary for the labor of a superintendent.
V.XXIII.34

The labor of superintendence and management will naturally be required whenever the direct process of production assumes the form of a combined social process, and does not rest on the isolated labor of independent producers.*74 It has, however, a double nature.
V.XXIII.35

On one side, all labors, in which many individuals cooperate, necessarily require for the connection and unity of the process one commanding will, and this performs a function, which does not refer to fragmentary operations, but to the combined labor of the workshop, in the same way as does that of a director of an orchestra. This is a kind of productive labor, which must be performed in every mode of production requiring a combination of labors.
V.XXIII.36

On the other side, quite apart from any commercial department, this labor of superintendence necessarily arises in all modes of production, which are based on the antagonism between the laborer as a direct producer and the owner of the means of production. To the extent that this antagonism becomes pronounced, the role played by

superintendence increases in importance. Hence it reaches its maximum in the slave system.*75 But it is indispensable also under the capitalist mode of production since then the process of production is at the same time the process by which the capitalist consumes the labor-power of the laborer. In like manner, the labor of superintendence and universal interference by the government in despotic states comprises both the performance of the common operations arising from the nature of all communities and the specific functions arising from the antagonism between the government and the mass of the people.
V.XXIII.37

In the works of ancient writers, who have the slave system under their eyes, both sides of the labor of superintendence are as inseparably combined in theory as they were in practice. So it is also in the works of the modern economists, who regard the capitalist mode of production as the absolute mode of production. On the other hand, as I shall show immediately by an example, the apologists of the modern slave system utilise the labor of superintendence quite as much to justify slavery, as the other economists do to justify the wage system.
V.XXIII.38

The villicus in Cato's time: "At the head of the rural slave community (familia rustica) stood the manager (villicus, derived from villa), who

took receipts and made expenditures, bought and sold, received instructions from the master, gave orders and meted out punishment in his absence....The manager occupied naturally a freer position than the other slaves; the Magonian books advise to permit him to marry, raise children, and have his own funds, and Cato recommends that he be married with the female manager; he alone probably had any prospects of being liberated by the master for good behavior. For the rest, all of them formed one common economy....Every slave, including the manager himself, was supplied with his necessities at the expense of his master, in definite periods according to fixed rates, and he had to get along on that. The quantity varied according to labor, and for this reason the manager, whose work was lighter than that of the other slaves, received a smaller ration than the others." (Mommsen, Römische Geschichte, second edition, 1856, I, p. 808-810.)
V.XXIII.39

Aristotle: "For the master proves himself such not in the buying, but in the employing of slaves." (The capitalist proves himself such, not by the ownership of capital, which gives him the power to buy labor-power, but in the employment of laborers, nowadays of wage laborers in the process of production.) "But there is nothing great about this knowledge. For whatever the slave must be able to perform, the master must be able to order. Whenever the masters are not compelled to drudge at superintendence, the manager assumes this

honor, while the masters attend to affairs of state or study philosophy." (Aristotle, Republic, Bekker edition, Book I, 7.)
V.XXIII.40

Aristotle says in plain words, that rulership on the political and economic field imposes upon the powers that be the functions of government, and that they must understand the art of consuming labor-power. And he adds, that this labor of superintendence is not a matter of great moment, and that for this reason the master, who is wealthy enough, leaves the "honor" of this drudgery to an overseer.
V.XXIII.41

The labor of management and superintendence arising out of the servitude of the direct producers has often been quoted in justification of this relation, not because it is a function due to the nature of all combined social labor, but because it is due to the antagonism between the owner of means of production and the owner of mere labor-power, regardless of whether this labor-power is bought by buying the laborer himself, as it is under the slave system, or whether the laborer himself sells his labor-power, so that the process of production is the process by which capital consumes his labor-power. And exploitation, the appropriation of the unpaid labor of others, has quite as often been represented as the reward justly due to the owner of capital for his labor. But it was never better defended than it was by a champion of slavery in the United States, a certain lawyer

O'Connor, at a meeting held in New York, on December 19th, 1859, under the slogan of "Justice for the South." "Now, Gentlemen," he said amid great applause, "nature itself has assigned this condition of servitude to the negro. He has the strength and is fit to work; but nature, which gave him this strength, denied him both the intelligence to rule and the will to work. (Applause.) Both are denied to him! And the same nature, which denied him the will to work, gave him a master, who should enforce this will, and make a useful servant of him in a climate, to which he is well adapted, for his own benefit and that of the master who rules him. I assert that it is no injustice to leave the negro in the position, into which nature placed him; to put a master over him; and he is not robbed of any right, if he is compelled to labor in return for this, and to supply a just compensation for his master in return for the labor and the talents devoted to ruling him and to making him useful to himself and to society."
V.XXIII.42

Now, the wage-laborer, like the slave, must have a master, who shall put him to work and rule him. And assuming this relation of master and servant to exist, it is quite proper to compel the wage-laborer to produce his own wages and also the wages of superintendence, a compensation for the labor of ruling and superintending him, "a just compensation for his master in return for the labor and talents

devoted to ruling him and to making him useful to himself and to society."
V.XXIII.43

The labor of superintendence and management arising out of the antagonistic character and rule of capital over labor, which all modes of production based on class antagonisms have in common with the capitalist mode, is directly and inseparably connected, also under the capitalist system, with those productive functions, which all combined social labor assigns to individuals as their special tasks. The wages of an epitropos, or régisseur, as he used to be called in feudal France, are entirely differentiated from the profit and assumes the form of wages for skilled labor, whenever the business is operated on a sufficiently large scale to warrant paying such a manager, although our industrial capitalists do not "attend to affairs of state or study philosophy" for all that.
V.XXIII.44

That not the industrial capitalists, but the industrial managers are "the soul of our industrial system," has already been remarked by Mr. Ure.*76 So far as the commercial part of the business is concerned, we have said as much as was necessary in the preceding part of this volume.
V.XXIII.45

The capitalist mode of production itself has brought matters to such a point, that the labor of superintendence, entirely separated from the ownership of capital, walks the streets. It is, therefore, no longer necessary for the capitalist performs the labor of superintendence himself. A director of an orchestra need not be the owner of the instruments of its members, nor is it a part of his function as a director, that he should have anything to do with the wages of the other musicians. The co-operative factories furnish the proof, that the capitalist has become just as superfluous as a functionary in production as he himself, in his highest developed form, finds the great real estate owner superfluous. To the extent that the labor of the capitalist is not the purely capitalistic one arising from the process of production and ceasing with capital itself, to the extent that it is not limited to the function of exploiting the labor of others, to the extent that it rather arises from the social form of the labor-process as a combination and co-operation of many for the purpose of bringing about a common result, to that extent it is just as independent of capital as that form itself, as soon as it has burst its capitalistic shell. To say that this labor as a capitalistic one, as a function of the capitalist is necessary, amounts merely to saying that the vulgar economist cannot conceive of the forms developed in the womb of capitalist production separated and freed from their antagonistic capitalist character. Compared to the money-capitalist the industrial capitalist is a laborer, but a laboring capitalist, an exploiter of the labor of others. The wages which he claims and pockets for

this labor amount exactly to the appropriated quantity of another's labor and depend directly upon the rate of exploitation of this labor, so far as he takes the trouble to assume the necessary burdens of exploitation. They do not depend upon the degree of his exertions in carrying on this exploitation. He can easily shift this burden to the shoulders of a superintendent for moderate pay. After every crisis one may see plenty of ex-manufacturers in the English factory districts, who for low wages superintend their own former factories as managers of the new owners, who are frequently their creditors.*77 V.XXIII.46

The wages of superintendence, both for the commercial and the industrial manager, appear completely separated from the profits of enterprise in the co-operative factories of the laborers as well as in capitalistic stock companies. The separation of the wages of superintendence from the profits of enterprise, which is at other times accidental, is here constant. In the co-operative factory the antagonistic character of the labor of superintendence disappears, since the manager is paid by the laborers instead of representing capital against them. Stock companies in general, developed with the credit system, have a tendency to separate this labor of management as a function more and more from the ownership of capital, whether it be self-owned or borrowed. In the same way the development of bourgeois society separates the functions of judges and administrators from feudal property, whose prerogatives they were in feudal times.

Since the mere owner of capital, the money-capitalist, has to face the investing capitalist, while money-capital itself assumes a social character with the advance of credit, being concentrated in banks and loaned by them instead of by its original owners, and since, on the other hand, the mere manager, who has no title whatever to the capital, whether by borrowing or otherwise, performs all real functions pertaining to the investing capitalist as such, only the functionary remains and the capitalist disappears from the process of production as a superfluous person.
V.XXIII.47

From the public accounts of the co-operative factories in England*78 it is manifest, that the profit, after the deduction of the wages of the superintendent, which form a part of the invested capital the same as the wages of the other laborers, was higher than the average profit, although they paid occasionally a much higher interest than the private factories. The cause of the greater profit was in all these cases a greater economy in the use of constant capital. What interests us particularly here is the fact that here the average profit (= interest + profit of enterprise) presents itself actually and palpably as a magnitude, which is wholly separated from the wages of superintendence. Since the profit was here higher than the average profit, the profit of enterprise was also higher than the current one.
V.XXIII.48

The same fact is revealed by some capitalist stock companies, such as joint stock banks. The London and Westminster Bank paid in 1863 annual dividends of 30%, the Union Bank of London and others 15%. Aside from the salary of the director, the interest paid for deposits is here deducted from the gross profit. The high profit is explained in this case by the small proportion of the paid-up capital to the deposits. For instance, in the case of the London and Westminster Bank, it was in 1863: Paid-up Capital 1,000,000 pounds sterling; deposits 14,540,275 pounds sterling. In that of the Union Bank of London, 1863: Paid-up capital 600,000 pounds sterling; deposits 12,384,173 pounds sterling.
V.XXIII.49

The confounding of the profit of enterprise with the wages of superintendence or management was due originally to the antagonistic form assumed toward interest by the surplus over the interest. It was further promoted by the apologetic intention to represent profit, not as a surplus-value derived from unpaid labor, but as wages of the capitalist himself for labor performed by him. This was met on the part of the socialists by the demand, that profit should actually be reduced to what it pretended to be theoretically, namely mere wages of superintendence. And this demand was all the more disagreeable to the apologists of the capitalists, as these wages of superintendence, like all other wages, found on one hand their level and fixed market-price to the extent that a numerous class of industrial and commercial

superintendents was formed,*79 while on the other hand these wages fell, like all wages for skilled labor, with the general development, which reduces the cost of production of specifically trained labor-power.*80 With the development of co-operation on the part of the laborers, of stock enterprises on the part of the bourgeoisie, even the last pretext for the confusion in matters of profit of enterprise and wages of management was removed, and profit appeared also in practice what it was undeniably in theory, mere surplus-value, a value for which no equivalent was paid, realised unpaid labor. It was then seen that the investing capitalist really exploits labor, and that the fruit of his exploitation, when he worked with a borrowed capital, was divided into interest and profit of enterprise, a surplus of profit over interest.

V.XXIII.50

On the basis of capitalist production, a new swindle develops in stock enterprises with the wages of management. It consists in placing above the actual director a board of managers or directors, for whom superintendence and management serve in reality only as a pretext for plundering stockholders and amassing wealth. Very interesting details concerning this are found in "The City or the Physiology of London Business; with Sketches on 'Change, and the Coffee Houses, London. 1845."Here is a sample: "What bankers and merchants gain by being on the boards of eight or nine different companies, may be seen from the following illustration: The private account of Mr. Timothy Abraham

Curtis, handed in by the court of bankruptcy on his failure, showed an income of 8,900 pounds sterling per year under the head of directorships. Since Mr. Curtis had been a director of the Bank of England and of the East Indian Company, every stock company was happy to secure him as a director." (P. 82.)‘The remuneration of the directors of such companies for each weekly meeting is at least one guinea. The proceedings of the court of bankruptcy show, that these wages of superintendence are as a rule inversely proportioned to the actual superintendence performed by these nominal directors.

Notes for this chapter

73.
"The profits of enterprise depend upon the net profits of capital, not the latter upon the former." (Ramsay, l. c., p. 214. Net profits with Ramsay always mean interest.)
74.
"Superintendence is here (in the case of the farm owner) completely dispensed with." (J. E. Cairnes, The Slave Power, London, 1862, p. 48.)
75.
"If the nature of the work requires that the workmen (namely the slaves) should be dispersed over an extended area, the number of overseers, and, therefore, the cost of the labor which requires this supervision, will be proportionately increased." (Cairnes, l. c., p. 44.)

76.

A. Ure, Philosophy of Manufactures, French translation, 1836, I, p. 68, where this Pindarus of the manufacturers at the same time testifies that most of the manufacturers have not the slightest understanding of the mechanism, which they set in motion.

77.

In one case known to me, after the crisis of 1868, a bankrupt manufacturer became the paid wage-laborer of his own former employes. This factory was operated after the bankruptcy of its owner by a laborers' co-operative, and its former owner was employed as manager.‘F. E.

78.

The accounts quoted here go no farther than 1864, since the above was written in 1865.‘F. E.

79.

"Masters are laborers as well as their journeymen. In this character their interest is precisely the same as of their men. But they are also either capitalists, or the agents of capitalists, and in this respect their interest is decidedly opposed to the interest of the workmen." (P. 27.) "The wide spread of education among the journeymen mechanics of this country diminishes daily the value of the labor and skill of almost all masters and employers by increasing the number of persons who possess their peculiar knowledge." (P. 30, Hodgskin, Labor defended against the Claims of Capital, etc., London, 1825.)

80.

"The general relaxation of conventional barriers, the increased facilities of education tend to bring down the wages of skilled labor instead of raising those of the unskilled." (J. St. Mill, Principles of Political Economy, 2nd ed., London, 1849, I, p. 463.)

Part V,

Volume III Chapter XXIV EXTERNALISATION OF THE RELATIONS OF CAPITAL IN THE FORM OF INTEREST-BEARING CAPITAL.

V.XXIV.1

IN the interest-bearing capital, the relations of capital assume their most externalised and most fetish-like form. We have here M‘M' money creating more money, self-expending value, without the process intermediate between these two extremes. In the merchants' capital, M‘C‘M', there is at least the general form of the capitalistic process, although it clings to the sphere of circulation, so that profit appears merely as profit from selling; but it is at least seen to be the product of a social relation, not the product of a mere thing. The form of merchants' capital presents at least the aspect of a process, of a unity of antagonistic phases, of a movement divided into two transactions, namely into the purchase and sale of commodities. This is obliterated in M‘M', the form of interest-bearing capital. For instance, if 1,000 pounds sterling are loaned by some capitalist, when the rate of

interest is 5%, then the value of 1,000 pounds sterling as a capital for one year is C + Ci', C standing for the capital and i' for the rate of interest. In the present case this would mean 5%, or 5/100 or 1/20, and 1,000 + 1,000 times 1/20 = 1,050 pounds sterling. The value of 1,000 pounds sterling as capital is 1,050 pounds sterling, that is, capital is not a simple magnitude. It is a relation of magnitudes, a relation of principal sum, as a given value, to itself as a self-expanding value, as a principal sum having produced a surplus-value. And we have seen that capital assumes this form of a directly self-expanding value for all investing capitalists, whether they work with their own or with a borrowed capital.
V.XXIV.2

M‘M'. We have here the original starting point of capital, we have money in the formula M‘C‘M' reduced to its two extremes M‘M', in which M' stands for M + increment of M, money creating more money. It is the primal and general formula of capital concentrated into a meaningless summary. It is capital perfected, a unity of the process of production and process of circulation, yielding a certain surplus-value in a certain period of time. In the form of interest-bearing capital this appears spontaneously without any intervention of the processes of production and circulation. Capital appears as a mysterious and self-creating source of interest, a thing increasing itself. The Thing (money, commodity, value) is now capital even as a mere thing, and capital appears as a mere thing. The result of the

entire process of reproduction appears as a faculty inherent in the thing itself. It depends on the owner of the money, which represents the universal exchange-form of commodities, whether he wants to spend it as money or loan it as capital. In the interest-bearing capital, therefore, this automatic fetish is elaborated in its pure state, it is self-expanding value, money generating money, and in this form it does not carry any more scars of its origin. The social relation is perfected into the relation of a thing, of money, to itself. Instead of the actual transformation of money into capital, only an empty form meets us here. As in the case of labor-power, so here in the case of interest-bearing capital the use-value of money becomes that of creating value, and at that a greater value than it contains itself. Money as such is potentially self-expanding value and is loaned as such, and loaning is the form of sale for this peculiar commodity. It becomes a faculty of money to generate value and yield interest, just as it is a faculty of a pear tree to bear pears. And the money lender sells his money as such an interest-bearing thing. But that is not all. The actually invested capital, as we have seen, presents itself in such a light, that it seems to yield the interest, not as a capital performing its function, but as a capital in itself, as money-capital.
V.XXIV.3

And still something else becomes perverted. While interest is only a portion of the profit, that is, of surplus-value, which the investing capitalist squeezes out of the laborer, it looks now on the contrary as

though the interest were the typical fruit of capital, the primal thing, and profit, in the shape of profit of enterprise, a mere accessory and by-product of the process of reproduction. Thus the fetish form of capital and the conception of a fetish capital are perfect. In M‘M' we have the void form of capital, the perversion and individualisation of the relations of production in their highest degree. The interest-bearing form is the simple form of capital, in which it is assumed to be antecedent to its own process of reproduction. It is the faculty of money, or of a commodity, to expand its own value independently of reproduction, a mystification of capital in its most flagrant form.
V.XXIV.4

For vulgar political economy, which desires to represent capital as a spontaneous source of value and its creation, this mystic form is, of course, a great boon. It is a form, in which the source of profit is no longer discernible, and in which the result of the capitalist process of production receives an independent existence apart from this process.
V.XXIV.5

It is not until capital becomes money-capital, that it can assume the form of a commodity, whose self-expanding faculty has a definite price, which is quoted in the current rate of interest.
V.XXIV.6

As an interest-bearing capital, in its direct form of interest-bearing money-capital (the other forms of interest-bearing capital, which do not concern us here, are derived from this one and require its existence), capital assumes its pure fetish form, M‘M' as a subject and a saleable thing. In the first place, its continual existence as money gives to it a form, in which all its functions are obliterated and its real elements invisible. For money is precisely that form, in which the distinctions of commodities as use-values are concealed, and with them the distinctions of the industrial capital consisting of these commodities and their conditions of production. It is that form, in which value, in the present case capital, exists as an independent exchange-value. In the process of reproduction of capital, the money-form is but a transient one, a mere passing link. But on the money-market, capital always exists in this form. In the second place, the surplus-value produced by it, which has here again the form of money, appears as inherent in it. Like the growing of trees, so the breeding of money appears as an innate quality of capital in the form of money-capital.
V.XXIV.7

In the interest-bearing capital, the movement of capital is contracted. The intervening process is omitted. In this way a capital of 1,000 appears with the fixed faculty of being of itself 1,100 and converting itself after a certain period into 1,100, just as wine in a cellar improves its use-value after a certain period. Capital is then a thing,

which is of itself capital. The money is then pregnant. As soon as it has been loaned, or invested in the process of reproduction (when it yields interest to its owner separate from profit of enterprise for his function as investing capitalist), the interest accumulates, whether it be awake or asleep, at home or abroad, day or night. In the interest-bearing money capital, then, the fervent wish of the hoarding miser is fulfilled (and all capital is money-capital, so far as the expression of its value is concerned, or is considered as the expression of money-capital).
V.XXIV.8

It is this inherent dwelling of interest in money-capital as a thing (and this is the aspect here assumed by the production of surplus-value by capital), which engages Luther's attention so much in his naive thundering against usury. After demonstrating, that interest may be demanded, when failure to pay back a loan to a lender, who has to meet a certain payment himself, caused a loss to him, or when he might have made a profit on a bargain, for instance in buying a garden, but lost it for the reason that the borrower failed to return the loan on time, Luther continues: "Now that I have loaned you 100 guilders, you make good my double loss due to the fact that I could not pay on one side and not buy on the other, so that I had to lose on both sides, and this is called double interest, for loss sustained and gain stopped....Having heard that John lost on his loan of 100 guilders and demands just damages, they rush in and charge double interest

on every 100 guilders, which interest was only charged for the loss due to nonpayment and to inability to make a profit on a bargain, just as though every 100 guilders could naturally grow double interest, so that whenever they have 100 guilders, they loan them out and charge for two losses, which they have not at all sustained....Therefore you are a usurer, who takes damages out of his neighbor's money for an imaginary loss that you did not sustain at all, and which you can neither prove nor calculate. This sort of loss is called by the jurists not true, but fantastical interest. It is a loss of which each dreams for himself....It will not do to say that you might incur a loss, because I might not have been able to pay or buy. That would be making something out of a thing that is not so, a thing that is uncertain into a thing that is absolutely sure. Such usury would eat up the world in a few years....If the lender accidentally incurs a loss, without his fault, he may demand damages for it, but it is different in trade and just the reverse. There they scheme to profit at the expense of their needy neighbors, how to amass wealth and get rich, to be lazy and idle and live in luxury on the labor of others, without any care, danger and loss. To sit behind the stove and let my 100 guilders gather wealth for me in the country and yet keep them in my pocket, because they are only loaned, without any danger or risk, my friend, who would not like to do that!" (Martin Luther, An die Pfarherrn wider den Wucher zu predigen, etc., Wittenberg, 1540.) V.XXIV.9

The idea of capital as a self-reproducing and thereby self-expanding value, lasting and growing eternally by virtue of its inherent power‘by virtue of the hidden faculties of the scholastics‘has led to the fabulous fancies of Dr. Price, which far outdo the fantasies of the alchemists; fancies, in which Pitt seriously believed and which he used as pillars of his financial administration in his laws concerning the sinking fund. V.XXIV.10

"Money bearing compound interest grows at first slowly; but since the rate of increase is constantly accelerated, it becomes so fast after a while as to defy all imagination. A penny, loaned at the birth of our Savior at compound interest at 5%, would already have grown into a larger amount than would be contained in 150 million globes, all of solid gold. But loaned at simple interest, it would have grown only to 7 sh. 4½ d. in the same time. Hitherto our government has preferred to improve its finances in the latter instead of in the former way."*81 V.XXIV.11

He flies still higher in his "Observations on Reversionary Payments, etc., London, 1782." There we read: "1 sh. invested at the birth of our Savior" (presumably in the Temple of Jerusalem) "at 6% compound interest would have grown to a larger amount than the entire solar system could contain, if it were transformed into a globe of the diameter of the orbit of Saturn." "A state need never to be in difficulties on this account; for with the smallest savings it can pay

the largest debt in as short a time as its interests may demand." (P. 136.) What a pretty theoretical introduction to the national debt of England!
V.XXIV.12

Price was simply dazzled by the enormousness of the figures arising from geometrical progression. Since he regarded capital, without taking note of the conditions of reproduction and labor, as a self-regulating automaton, as a mere number increasing itself (just as Malthus did with men in their geometrical progression), he could imagine that he had found the law of its growth in the formula $s = c(1 + i)^n$, in which s stands for the sum of capital plus compound interest, c for the advanced capital, i for the rate of interest expressed in aliquot parts of 100, and n for the number of years in which this process takes place.
V.XXIV.13

Pitt takes this mystification of Price quite seriously. In 1788 the House of Commons had resolved to raise one million pounds sterling for the public benefit. According to Price, in whom Pitt believed, there was, of course, nothing better than to tax the people, in order to "accumulate" this sum after raising it, and thus to spirit the national debt away by the mystery of compound interest. "The above resolution of the House of Commons was soon followed up by Pitt with a law, which ordered the accumulation of 250,000 pounds

sterling, until, with the expired annuities, the fund should have grown to 4,000,000 pounds sterling annually." (Act 26, George III, chap. 22.) In his speech of 1792, in which Pitt proposed that the amount devoted to the sinking fund be increased, he mentioned among the causes of the commercial supremacy of England machines, credit, etc., as "the most wide-spread and enduring cause of accumulation." This principle, he said, was completely developed in the work of Smith, that genius, etc....And this accumulation, he continued, was accomplished by laying aside at least a portion of the annual profit for the purpose of increasing the principal, which was to be employed in the same manner next year, and which thus yielded a continual profit. By the help of Dr. Price, Pitt thus converted Smith's theory of accumulation in an increase of popular wealth by means of the accumulation of debts, and in this way he gets into the pleasant progress of infinite loans, made for the purpose of paying loans. V.XXIV.14

Already Josiah Child, the father of modern banking, tells us that 100 pounds sterling at 10% will produce in 70 years by compound interest 102,400 pounds sterling. Traité sur le commerce, etc., par J. Child, traduit, etc., Amsterdam et Berlin, 1754, p. 115. Written in 1669.) V.XXIV.15

How thoughtlessly the conception of Dr. Price is applied by modern economists, is shown by the following passage of the "Economist":

"Capital, with compound interest on every portion of capital saved, is so all-engrossing that all the wealth in the world from which income is derived, has long ago become interest of capital....all rent is now the payment of interest on capital previously invested in the land." (Economist, July 19th, 1859.) In its capacity of interest-bearing capital capital claims the ownership of all wealth which can ever be produced, and everything it has received so far is but an instalment for its all-engrossing appetite. By its innate laws, all surplus-labor belongs to it, which the human race can ever perform. Moloch.
V.XXIV.16

In conclusion we present the following hodge-podge of the romantic Müller: "Dr. Price's immense increase of compound interest, or of the self-accelerating forces of man, presuppose an undivided or unbroken order for several centuries, if they are to produce such enormous effects. As soon as capital is divided, cut up into several independently growing slips, the total process of accumulating forces begins anew. Nature has distributed the progression of power over a course of about 20 to 25 years, which fall on an average to the share of every laborer (!). After the lapse of this time the laborer leaves his track and must transfer the capital accumulated by the compound interest of labor to a new laborer, having to distribute it as a rule among several laborers or children. These must first learn to vitalise and employ their share of capital, before they can draw any actual compound interest out of it. Furthermore, an enormous quantity of

capital gained by bourgeois society is accumulated for many years, even in the most restless communities, and is not employed for any immediate expansion of labor, but rather entrusted to another individual, a laborer, a bank, a state, under the term of a loan, whenever a considerable amount has been gathered together. And in that case the one who receives it sets the capital into actual motion and draws compound interest out of it, so that he can easily agree to pay simple interest to the lender. Finally the laws of consumption, greed, waste, oppose those immense progressions, in which the forces of man and their products might increase, if the law of production or thrift were alone effective." (A Müller, 1. c., II, p. 147-149.)
V.XXIV.17

It is impossible to concoct a more hair-raising nonsense in a few lines. Leaving aside the droll confusion of laborer and capitalist, of value of labor-power and interest of capital, etc., the decrease of compound interest is supposed to be explained by lending capital at compound interest. This procedure of our Müller is characteristic of romanticism in all fields. It is made up of current prejudices, skimmed from the most superficial semblance of things. This false and trivial substance is then supposed to be "uplifted" and rendered poetical by a mystifying mode of expression.
V.XXIV.18

The process of accumulation of capital may be conceived as an accumulation of compound interest in the sense that that portion of the profit (surplus-value), which is reconverted into capital, and serves to absorb more surplus-value, may be called interest. But
V.XXIV.19

1) Aside from all accidental irregularities, a large part of the available capital is continually depreciated in the course of the process of reproduction, because the value of the commodities is not determined by the labor-time originally spent in their production, but by the labor-time spent in their reproduction, and this decreases continually in consequence of the development of the productivity of social labor. On a higher stage of development of the social productivity all available capital appears therefore as the result of a relatively short time of reproduction, instead of as the result of a long process of saving capital.*82
V.XXIV.20

2) As we have proven in Part III of this volume, the rate of profit decreases in proportion as the accumulation of capital and the productivity of social labor corresponding to it increase, since these two express themselves precisely in a relative and progressive decrease of the variable portion of capital as compared to the constant. In order to produce the same rate of profit, when the constant capital set in motion by one laborer increases tenfold, the

surplus labor time would have to increase tenfold, and soon the total labor time, and finally the full 24 hours of a day, would not suffice, even if wholly appropriated by capital. The idea that the rate of profit does not decrease is, on the other hand, the basis of the progression of Price, as it is in general the basis of "all-engrossing capital with compound interest."*83
V.XXIV.21

By the identity of surplus-value with surplus-labor a qualitative limit is imposed upon the accumulation of capital. This is formed by the total working day, the prevailing development of the productive forces and of the population, which limit the number of the simultaneously exploitable working days. But if surplus value is conceived of in the meaningless form of interest, then the limit is merely quantitative and defies all fantasy.
V.XXIV.22

Now, in the interest-bearing capital the idea of a capitalist fetish is perfected, the idea, which attributes to the accumulated product of labor, and at that in the fixed form of money, the power of creating surplus-value by its inherent secret qualities, in a purely automatic manner, and in geometrical progression, so that the accumulated product of labor, as the "Economist" thinks, has long discounted all the wealth of the world for all times as belonging to it and coming to it by right. The product of past labor, the past labor itself, is here

pregnant in itself with a portion of present or future living surplus-labor. We know, on the contrary, that as a matter of fact the preservation, and to that extent the reproduction, of the value of the products of past labor is only the result of their contact with living labor; and secondly, that the control exerted by the products of past labor over living surplus-labor lasts only as long as the relations of capital, which rest on the definite social relation, in which past labor dominates independently over living labor.

Notes for this chapter

81.
Richard Price, An Appeal to the Public on the subject of the National Debt, 2nd ed., London, 1772. He cracks the naive joke: "A man must borrow money at simple interest, in order to increase it at compound interest." (R. Hamilton, An Inquiry into the Rise and Progress of the National Debt of Great Britain, 2nd ed., Edinburgh, 1814.) According to this, borrowing would be the safest means for private people to gather wealth. But if I borrow 100 pounds sterling at 5% annual interest, I have to pay 5 pounds at the end of the year, and even if the loan lasts for 100 million years, I have meanwhile only 100 pounds to loan every year and 5 pounds to pay every year. I can never manage by this process to loan 105 pounds sterling when borrowing 100 pounds sterling. And how am I going to pay the 5 pounds? By new loans, or, if it is the state, by new taxes. Now, if

the industrial capitalist borrows money, and his profit amounts to 15%, he may pay 5% interest, spend 5% for his private expenses (although his appetite grows with his income), and capitalise 5%. In this case, 15% are the premise on which 5% interest may be paid continually. If this process continues, the rate of profit, for the reasons indicated in former chapters, will fall from 15% to, say, 10%. But Price forgets wholly that the interest of 5% pre-supposes a rate of profit of 15%, and assumes it to continue with the accumulation of capital. He does not take note of the process of accumulation at all, but thinks only of the loaning of money and its return with compound interest. How that is accomplished is immaterial to him, since for him it is the innate faculty of interest-bearing capital.

82.

See Mill and Carey, and Roscher's mistaken commentary on them.

83.

"It is clear, that no labor, no productive power, no ingenuity, and no art, can answer the overwhelming demands of compound interest. But all saving is made from the revenue of the capitalist, so that actually these demands are constantly made and as constantly the productive power of labor refuses to satisfy them. A sort of balance is, therefore, constantly struck."

Part V,

Volume III Chapter XXV CREDIT AND FICTITIOUS CAPITAL.

V.XXV.1

AN exhaustive analysis of the credit system and of the instruments created by it for its own use (credit money, etc.) is beyond the scope of our plan. We merely wish to dwell here upon a few particular points, which are necessary for a characterisation of the capitalist mode of production in general. To this end we shall deal only with commercial and bank credit. The connection between the development of this form of credit and that of public credit is not considered here.
V.XXV.2

I have shown previously (in volume I, chapter III, 3 b.), in what manner the function of money as a medium of payment, and consequently a relation of creditors and debtors, is formed among the producers of commodities and the traders, as the outcome of the simple circulation of commodities. With the development of commerce and of the capitalist mode of production, which has an eye only to the circulation, this natural basis of the credit system is extended, generalised, elaborated. Money serves here on the whole merely as a means of payment, that is to say, commodities are not sold for money, but for a written promise to pay for them at a certain date. We may comprise all these promises to pay for brevity's sake under the general category of bills of exchange. Such bills of exchange in

their turn circulate as means of payment until the day on which they fall due; and they form commercial money in the strict meaning of the term. To the extent that they ultimately balance one another by the compensation of credits and debts, they serve absolutely as money, since no transformation into actual money takes place. Just as these mutual advances of the producers and merchants to one another form the real foundation of credit, so their instrument of circulation, the bill of exchange, forms the basis of credit money proper, of bank notes, etc. These do not rest upon the circulation of money, whether it be metallic money or government paper money, but upon the circulation of bills of exchange.
V.XXV.3

W. Leatham, a banker of Yorkshire, writes in his "Letters on the Currency," 2nd edition, London, 1840: "I find, that the total amount in bills of exchange for the entire year 1839 was 528,493,842 pounds sterling" (he assumed that the foreign bills of exchange composed about one-fifth of the whole) "and the amount of bills of exchange simultaneously current in the same year to 132,123,460 pounds sterling" (p. 56). "The bills of exchange make up a greater part of the amount in circulation than all the rest together" (p. 3). "This enormous superstructure of bills of exchange rests (!) upon a basis formed by the amount of bank notes and gold; and if in the course of events this basis is too much contracted, its solidity, and even its existence, become endangered" (p. 8). "Estimating the entire

circulation" (he means of the bank notes) "and the amount of the obligations of all banks for which immediate payment may be demanded, I find a sum of 153 millions, whose conversion into gold might be demanded according to law, and to offset it only 14 millions in gold to satisfy this demand" (p. 11). The bills of exchange cannot be placed under control, unless the superfluity of money and the low rate of interest, or discount, can be prevented, which create a part of them and encourage this dangerous expansion. It is impossible to decide, how much of them is due to actual business, for instance, to real purchases and sales, and what part of them is fictitious and consists only of prolonged bills, that is, when a bill of exchange is drawn for the purpose of taking up a current one before it becomes due, and thus of creating fictitious capital by the manufacture of mere means of circulation. In times of superfluous and cheap money I know this is done to an enormous degree" (p. 43, 44). J. W. Bosanquet, Metallic, Paper, and Credit Currency, London, 1842: The average amount of the payments settled on every business day in the Clearing House (where the London bankers mutually exchange the due bills and filed checks) exceeds 3 millions of pounds sterling, and the daily supply of money required for this purpose is little more than 200,000 pounds sterling (p. 86). [In the year 1889, the total turn-over of the Clearing House amounted to 7,618 and ¾ millions of pounds sterling, which, in 300 business days, averages 25 and ½ millions of pounds sterling daily.‘F. E.] "Bills of exchange are undoubtedly currency, independent of money, inasmuch as they

transfer property from hand to hand by endorsement" (p. 92). "On an average it may be assumed that every circulating bill of exchange bears two endorsements, and that on an average every bill thus performs two payments, before it becomes due. Accordingly it seems that alone by endorsement the bills of exchange promoted a transfer of property to the amount of twice 528 millions, or 1,056 millions of pounds sterling, more than 3 millions daily, in the course of the year 1839. It is, therefore, certain the bills of exchange and deposits together, by transferring property from hand to hand and without the assistance of money, perform the functions of money to a daily amount of at least 18 millions of pounds sterling" (p. 93).
V.XXV.4

Tooke says the following about credit in general: "Credit, in its simplest expression, is the well or ill-founded confidence, which induces one man to entrust to another a certain amount of capital, in money or in commodities estimated at a certain value, which amount is always payable after the lapse of a definite time. Where the capital is loaned in money, that is, in bank notes, or in a cash credit, or in a check upon some correspondent, an addition of so and so many per cent. upon the returnable amount is made for the use of the capital. With commodities, whose money value has been agreed upon by the parties concerned, and whose transfer constitutes a sale, the stipulated sum, which is to be paid, includes a compensation for the use of the capital and for the risk assumed until the time of payment. Written

agreements to pay on definite days are generally given for such credits. And these transferable obligations, or promises, form the means by which the lenders, when they find an opportunity to use their capital, either in the shape of money or commodities, are generally enabled to borrow or buy more cheaply, their own credit being strengthened by that of the second name upon the bill of exchange." Inquiry into the Currency Principle, (p. 87.)
V.XXV.5

Ch. Coquelin, Du Crédit et des Banques dans l' Industrie. Revue des deux Mondes, 1842, tome 31: "In every country the majority of the credit transactions takes place in the circle of the industrial relations themselves...the producer of the raw material advances it to the capitalist, who works it up, and receives from him a promise to pay on a certain day. The manufacturer, having completed his share of the work, in his turn advances his product on similar conditions to another manufacturer, who has to manipulate it farther, and in this way credit extends more and more, from one to the other, down to the consumer. The wholesale dealer gives to the retail dealer commodities on credit, while he receives himself credit from a manufacturer or commission agent. All borrow with one hand and lend with the other, sometimes money, but more frequently products. In this manner an incessant exchange of credits, combining and crossing in all directions, takes place in the industrial relations. The development of credit consists precisely in the multiplication and

growth of these mutual credits, and here is the real seat of its power."
V.XXV.6

The other side of the credit system is connected with the development of the money trade, which, of course, keeps step under capitalist production with the development of the trade in commodities. We have seen in the preceding part (chapter XIX), how the care of reserve funds of business men, the technical operations of receiving and issuing money, of international payments, and thus of the bullion trade, are concentrated in the hands of the money traders. Borrowing and lending money becomes their particular business. They step as middlemen between the actual lender and the borrower of capital. Generally speaking, the banking business on this side consists of concentrating the loanable money-capital in the banker's hands in large masses, so that in place of the individual money lender the bankers face the industrial capitalists and commercial capitalists in the capacity of representatives of all money lenders. They become the general managers of the money-capital. On the other hand, they concentrate the borrowers against all lenders, and borrow for the entire world of commerce. A bank represents on one hand the centralisation of money-capital, of the lenders, and on the other the centralisation of the borrowers. Its profit is generally made by borrowing at a lower rate of interest than it loans.
V.XXV.7

The loanable capital, of which the banks dispose, flows to them in various ways. In the first place, since they are the cashiers of the industrial capitalists, there is concentrated into their hands the money-capital, which every producer and merchant must have as a reserve fund, or which he receives in payment. These funds are thus converted into loanable capital. In this way the reserve fund of the commercial world, being concentrated into a common treasury, is reduced to its necessary minimum, and a portion of the money-capital, which would otherwise slumber as a reserve fund, is loaned and serves as interest-bearing capital. In the second place, the loanable capital of the banks is formed by the deposits of the money-capitalists, who entrust them with the business of loaning it. Furthermore, with the development of the bank system, and particularly as soon as they pay interest on deposits, the money savings and the temporarily unemployed money of all classes are deposited with them. Small amounts, each by itself incapable of acting in the capacity of money-capital, are combined into large masses and thus form a money power. This aggregation of small amounts must be distinguished as a specific effect of the bank system from its intermediate position between the money-capitalists proper and the borrowers. Finally, the revenues, which are but gradually consumed, are also deposited with the banks.

V.XXV.8

The loan is made (we refer here only to the commercial credit in the strict meaning of the term) by discounting bills of exchange, that is, by converting them into money before they come due, and by advances in various forms: direct advances on personal credit, Lombard loans on interest-bearing papers, government papers, stocks of all kinds, furthermore advances on bills of lading, dock warrants, and other certified titles of ownership in commodities, and by overdrawing on their deposits, etc.
V.XXV.9

The credit given by a banker may assume various forms, for instance, that of exchanges on other banks, checks on them, opening of credit in the same way, finally, in the case of banks entitled to issue notes, the bank notes of the bank itself. A bank note is nothing but a draft upon the banker, payable at any time to the bearer, and substituted by the banker for private drafts. This last form of credit appears particularly important and striking to the layman, first, because this form of credit money steps from the mere commercial circulation into the general circulation and serves as money there, and in the second place, because in most countries the principal banks issuing notes represent a queer mixture of national and private banks and thus have actually the national credit to back them up and give to their notes the character of a more or less legal tender, for in this case it is apparent, that the thing which the banker handles is credit itself, since a bank note stands only for a circulating token of credit. But

the banker also deals in all other forms of credit, even when he advances cash money deposited with him. In fact, a bank note simply represents the coin of wholesale trade, and it is always the deposit, which carries the most weight with banks. The best proof of this is furnished by the Scotch banks.
V.XXV.10

The special credit institutions, and the particular forms of banks, do not require any further consideration for our purposes.
V.XXV.11

The banks have a twofold business.... 1) To collect capital from those, who have no immediate use for it, and to distribute it and transfer it to others, who can use it. 2) To receive deposits from the incomes of their customers and to pay them whatever amount they may require of this deposit for the expenses of consumption. The former is circulation of capital, the latter circulation of currency.‘The one is a concentration of capital on one side, and its distribution on the other; the other is a management of the circulation for the local needs of the vicinity.‘Tooke, Inquiry into the Currency Principle, p. 36, 37.‘We shall revert to this passage later, in chapter XXVIII.
V.XXV.12

Reports of Committees. Vol. VIII., Commercial Distress. Vol. II., Part I., 1847-48, Minutes of Evidence. (Subsequently quoted as Commercial

Distress, 1847-48.) In the forties, when discounting bills of exchange in London, bills of exchange of one bank were often drawn on another instead of bank notes. (Testimony of J. Pease, provincial banker, No. 4636 and 4656.) According to the same report, the bankers were in the habit of giving such bills of exchange in payment to their customers, as soon as money grew tight. If the party receiving them demanded bank notes, he had to discount this bill of exchange once more. This amounted to a privilege of making money for the banks. Messieurs Jones, Lloyd and Co., made payments in this way "since time immemorial," as soon as money was scarce and the rate of interest above 5%. The customer was glad to get such banker's bills, because bills of Jones, Lloyd and Co. could be easier discounted than his own; these bills often passed through twenty to thirty hands. (Ibidem, No. 901 to 904, 905.)
V.XXV.13

All these forms serve to make a claim to payments transferable.‘There is scarcely one form, which credit may assume, in which it has not at times performed the functions of money; whether this form is that of a bank note, or of a bill, or of a check, the process is essentially the same and the result is essentially the same. Fullarton, On the Regulation of Currencies, 2d edition, London, 1845, p. 38.‘Bank notes are the small currency of credit. p. 51.‘
V.XXV.14

The following is from J. W. Gilbart The History and Principles of Banking, London, 1834: The capital of a bank consists of two parts, the invested capital and the banking capital, which is borrowed (p. 11 et seq.). The banking capital, or borrowed capital, is maintained in three ways: 1) through the acceptance of deposits; 2) through the issuing of the bank's own notes; 3) through the drawing of bills. If some one is willing to loan me 100 p.st. for nothing, and I loan these 100 p.st. to some one else at 4%, I shall make 4 p.st. by this transaction in the course of one year. Likewise if some one is willing to accept my promise to pay and to return it to me at the end of the year and to pay me 4% for it, just as though I had given him 100 p.st. by this transaction, I make 4 p.st. by it; and again, if a man in a country town brings me 100 p.st. on the condition that I shall pay this amount to some third person in London after the lapse of 21 days, all the interest I may draw in the meantime on this money will be my profit. This is an objective summary of the operations of a bank and of the way in which a banking capital is created by deposits, bank notes and bills of exchange (p. 117). The profits of a banker are generally proportionate to the amount of his borrowed or banking capital. In order to determine the actual profit of a bank, the interest on the first investment of capital must be deducted from the gross profits. The remainder is the banking profit (p. 118). The advances of a banker to his customers are made with the money of other people (p. 146). Precisely those bankers, who do not issue any bank notes, create a banking capital by discounting bills of exchange.

They increase their deposits by their discounting operations. The London banks discount only for those firms, that keep a deposit in account with them (p. 119). A firm discounting bills of exchange in its bank and having paid interest upon the whole amount of these bills must leave at least a portion of this amount in the hands of the bank without receiving any interest on it. In this way the banker receives a higher rate of interest than the current one on the advanced money and creates for himself a banking capital by means of the surplus remaining in his hands. (p. 120.)‘Economising of reserve funds, deposits, checks: The deposit banks economise by a transfer of credit accounts the use of the circulating medium and transact business of a large volume with a small amount of actual money. The money thus released is employed by the banker in making advances to his customers by means of discounts, etc. Hence the transfer of credit enhances the effectiveness of the deposit system (p. 123). It is immaterial, whether the two customers, that deal with one another, keep their accounts with the same or with different bankers. For the bankers exchange their checks among themselves in the Clearing House. By means of transfers the deposit system might be extended to such a degree that it would do away entirely with the use of metal money. If every one were to keep a deposit account in the bank and to make payments by means of checks then such checks would be the only circulating medium. In this case the assumption would have to be that the bankers hold the money in their hands, otherwise the checks would have no value (p. 124). The centralisation of the local

transactions in the hands of the banks is promoted, 1) by branch banks. The provincial banks have branch establishments in the smaller towns of their district the London banks in the different quarters of the city. 2) By agencies. Every provincial bank has its agent in London, in order to pay its notes or bills there and to receive money, which is paid down by inhabitants of London for the account of people living in the provinces. (p. 127.) Every banker gathers in the notes of the others and holds them. In every large city they meet once or twice a week and exchange their notes. The balance is paid by a check on London. (p. 134.) The purpose of banks is to facilitate business. Whatever facilitates business, facilitates also speculation. Business and speculation are so closely linked in some cases, that it is difficult to tell where business stops and speculation begins. Wherever there are banks, capital can be obtained more easily and cheaply. The cheapness of capital promotes speculation, just as the cheapness of beer and meat promotes gluttony and drunkenness (p. 137, 138). Since the banks issuing their own notes always pay in these notes, it may seem as though their discount business were transacted exclusively with the capital made in this way, but this is not so. A banker may very well pay all the bills discounted by him with his own notes, and yet nine-tenths of the bills in his possession may represent actual capital. For while he may have given only his own paper money for these bills, it need not stay in the circulation until these bills become due. The bills may be running for three months, while the notes may return in three days. (p. 172.) The overdrawing of

accounts by customers is a regular business practice. This is indeed the purpose, for which cash credit is granted. Cash credits are not granted on personal security, but on deposit of collateral papers (p. 174, 175). A capital advanced on bonded wares has the same effect as though it had been advanced in discounting bills. If a man borrows 100 p.st on his goods as a security, it is the same as though he had sold them for a bill of exchange of 100 p.st. and discounted this bill with his banker. But this advance enables him to hold his goods over for a better condition of the market and to avoid sacrifices, which he would have had to make, in order to obtain money for urgent purposes (p. 180, 181).
V.XXV.15

The Currency Question Reviewed, etc., p. 62, 63: It is here indisputably true that the 1,000 p.st. which I deposit to-day with A are issued to-morrow and deposited with B. The day after to-morrow it may be issued once more by B and form a deposit with C, and so forth infinitely. The same 1,000 p.st. of money may, therefore, multiply themselves into an absolutely indeterminable sum of deposits by a series of transfers. Hence it is possible that nine-tenths of all deposits in England may have no other existence but that in the entries of the banker's books, of whom every one stands good for his part of them. In Scotland, for instance, the money in circulation (and mostly paper money at that) never exceeds 3 million p.st., while the deposits amount to 27 millions. So long as no general and sudden

demand is made for the return of the deposits (a run on the bank), the same 1,000 p.st., traveling backward, may balance an equally indeterminable sum with the same facility. Since the same 1,000 p.st., with which I balance to-day my debt with some business man, may balance to-morrow his debt with some other business man, and the day after to-morrow balance this man's account, and so forth infinitely, it follows that the same 1,000 p.st. may pass from hand to hand and from bank to bank and balance any imaginable sum of deposits.
V.XXV.16

[We have seen, that Gilbart knew even in 1834 that "whatever facilitates business facilitates speculation, both being so intimately linked in many cases, that it is difficult to tell, where business stops and speculation begins." If the securing of advances on unsold commodities is facilitated more and more, then more and more of such advances are taken, and in the same proportion increases the temptation to manufacture commodities, or throw already manufactured ones upon distant markets, for no other immediate purpose than that of obtaining advances of money on them. To what extent the entire business world of a country may be seized by such a swindle, and what it finally comes to, may be studied in the history of English business during the years 1845 to 1847, which furnishes a flagrant example. There we can see what credit can accomplish.

Before we mention some of the most conspicuous cases, we must make a few preliminary remarks.

About the close of 1842 the pressure, which had crushed English industry almost without interruption since 1837, began to weaken. During the following two years the demand of the foreign countries for products of English industry increased still more. The year 1845 to 1846 marked the period of greatest prosperity. In 1843 the opium war had opened the doors of China to English commerce. The new market offered a convenient excuse for the further expansion of already extended industries, particularly of the cotton industry. "How can we ever produce too much? We have to clothe 300 millions of people." Thus spoke a Manchester manufacturer to the writer in those days. But all the newly erected factory buildings, steam engines, spinning and weaving machines did not suffice to absorb the surplus-value, which poured into them from Lancashire. With the same passion, which was exhibited in the expansion of production, the building of railroads was undertaken. Here the longing of manufacturers and merchants for speculation found its first satisfaction, as early as the summer of 1844. Stock was underwritten to the full extent possible, that is, so far as the money went to cover the first payments. The idea was that a way would be found in due time to get the missing amount. But when further payments were due (Question 1059, C. D. 1848-57, indicates that the capital invested in railroads in 1846-47 amounted to 75 million p.st.), it was necessary to resort to credit, and

as a rule the actual business of the firm itself had to add its drop of blood.

In most cases the actual business was already overburdened. The enticing and high prices had misled people into far greater operations than the available cash justified. It was so easy, and cheap besides, to get credit. The bank discount was low. In 1844 it was 1¾ to 2¾ %, in 1845 until October it was less than 3%, then it rose for a little while to 5% (until February 1846), then it fell once more to 3¼% in December 1846. The bank had in its cellars a supply of gold of unusual dimensions. All inland quotations stood higher than ever before. Why should a man let this fine opportunity pass by? Why shouldn't he go in for all he was worth? Why not send to the foreign markets, that longed for English goods, all the commodities that could be manufactured? And why should not the manufacturer himself pocket the double gain arising from the sale of yarn and fabrics to the Far East, and from the sale, in England, of the back freight received in their stead?

Thus arose the system of mass consignments, by virtue of advances, to India and China, and this soon developed into a system of consignments purely for the sake of getting advances, as described more at length in the following notes. This had to lead inevitably to an overcrowding of the markets and to a crash.

This crash came as the aftermath of a crop failure in 1846. England, and still more, Ireland, required enormous imports of means of subsistence, particularly of corn and potatoes. But the countries that supplied these things could be paid only to a very small degree in products of English industry. They had to be paid in precious metals. This took at least nine millions of gold to foreign countries. Of this amount of gold fully seven and a half millions came out of the cash treasury of the Bank of England, whose freedom of action on the money market was seriously impaired thereby. The other banks, whose reserves are deposited with the Bank of England, which reserves are practically identical with those of the Bank of England, were thus compelled to cut down their own money accommodations. The rapidly and easily flowing stream of payments became clogged, first here and there, then universally. The banking discount, which had still been 3 to 3½% in January of 1847, rose to 7% in April, when the first panic broke out. Then a temporary lull came in summer, lowering this discount to 6½ and 6 %. But when the new crop failed likewise, the panic broke out afresh and more violently. The official minimum discount of the Bank rose in October to 7%, in November to 10%, in other words, the overwhelming mass of checks could be discounted only at outrageous rates of interest, or not at all. The general stopping of payments brought about the bankruptcy of several of the first firms and of very many medium-sized and small firms. The Bank itself was in danger of ruin from the shrewd Bank Acts imposing the limitations of 1844. In this emergency the government yielded to the

universal demand and suspended these Bank Acts on October 25, thereby taking off the absurd legal fetters thrown around the Bank. Now the Bank was enabled to throw its supply of bank notes into circulation without any interference. The credit of these bank notes being practically guaranteed by the credit of the nation, and thus unimpaired, the shortness of money was immediately relieved in the most effective manner. Of course, quite a number of hopelessly caught large and small firms failed nevertheless even then, but the climax of the crisis had passed, the banking discount fell once more to 5% in September, and in the course of 1848 that renewed business activity was resumed, which took the edge off the revolutionary movements on the continent in 1849, and which inaugurated in the fifties a formerly unknown industrial prosperity and ended‘in the crash of 1857.‘F. E.]

V.XXV.17

I. A document issued by the House of Lords in 1848 gives information concerning the depreciation of government papers and bonds during the crisis of 1847. According to it the depreciation of October 23, 1847, compared to the stand of values in February of the same year, amounted to 93,824,217 pounds sterling in English government bonds, 1,358,288 pounds sterling in dock and canal stock, and to 19,579,820 pounds sterling in railroad stocks, a total of 114,762,325 pounds sterling.

II. With reference to the swindle in East Indian business, in which it was no longer a question of making drafts, because commodities had been bought, but rather of buying commodities in order to be able to make out discountable drafts which should be convertible into money, the "Manchester Guardian" of November 24, 1848, remarks that Mr. A in London instructs a Mr. B to buy from the manufacturer C in Manchester commodities for shipment to a Mr. D. in East India. B pays C in six-months-drafts to be made by C on B. B secures himself by six-months-drafts on A. As soon as the goods are shipped, and the bill of lading mailed, A makes out six-months-drafts on D. The buyer and shipper thus get possession of funds many months before the goods are actually paid for. And it was a common custom to renew the drafts when due under the pretense of allowing time for turn-over in such a protracted business. Unfortunately the losses in this business did not lead to its restriction, but to its extension. In proportion as the interested parties grew poor their need of making purchases increased, in order to find in new advances a compensation for capital lost in previous speculations. Purchases were then no longer regulated by supply and demand, but became the most important feature in the financial operations of a shaky firm. But this is only one side of the picture. What happened in the export of manufacturing goods here, occurred in the purchase and shipment of goods on the other side. Firms in India, which had credit enough to get their checks

discounted, bought sugar, indigo, silk or cotton, not because the purchase prices as compared with the latest London quotations promised a profit, but because previous drafts on a London firm would soon be due and would have to be covered. What was simpler than to buy a cargo of sugar, to pay for it in ten-months-drafts on the London firm, and to send the bills of lading by overland mail to London? Less than two months later the bills of lading of these barely shipped goods, and thus the goods themselves, were pawned in Lombard Street, and the London house came into the possession of money eight months before the bills of exchange made out for these goods were due. And all this passed off smoothly, without interruption or difficulties, so long as the discounting firms found enough money to advance on bills of lading and dock warrants, and to discount the drafts of Indian firms on select firms of Mincing Lane to unlimited amounts.
V.XXV.19

[This fraudulent procedure remained in vogue so long as the goods from and to India had to sail around the Cape. But since they pass through the Suez Canal this method of creating fictitious capital has lost its foundation, thanks to steam navigation and the shortening of the trip. And when the telegraph reported the stand of the Indian market to the English and that of the English market to the Indian business man on the same day, this method was completely killed. F. E.]

V.XXV.20

III. The following is from the previously quoted report on Commercial Distress, 1847-48: In the last week of April, 1847, the Bank of England informed the Royal Bank of Liverpool, that it would henceforth reduce its discount business with the latter bank by one-half. This communication had a very disastrous effect, because the payments in Liverpool had lately been made far more in bills of exchange than in cash, and because the merchants, who ordinarily carried much cash money to the bank for the purpose of squaring their notes, had been able to bring only checks of late, which they had received themselves for their cotton and other products. This had assumed large proportions and caused the business difficulty. The endorsed checks, which the bank had to turn into cash for the merchants, had mostly been made out by outsiders, and had so far been balanced generally by the payments received for the products. The checks which the merchants now brought in place of the former cash were bills of exchange for different lengths of time and of different kinds, a considerable number being bank checks for three months from date, the majority being checks for cotton. These bills of exchange, when bank checks, had been endorsed by London bankers, the others were endorsed by merchants in Brasilian, American, Canadian, West Indian, etc., business... The merchants did not draw on one another, but the customers in the home country, who had

bought products in Liverpool, covered them by drafts on London banks, or drafts on other firms in London, or on drafts of some one else. The communication of the Bank of England caused a shortening of the running time of checks drawn against sales of foreign products, which used to run frequently longer than three months. (p. 26, 27.) V.XXV.21

The period of prosperity in England, from 1844 to 1847 was, as described above, connected with the first great railroad swindle. The above-named report makes the following statements concerning the influence of this swindle on business in general: In April, 1847, nearly all commercial firms had begun to starve their business more or less, by investing a part of their commercial capital in railroads (p. 41.)‘ Loans were also made by private parties, bankers and insurance companies at a high rate of interest, for instance, at 8% (p. 66). These large advances of these business firms to railroads caused them to take up in their turn too much capital from banks on discount checks, by which to carry on their own business (p. 67.‘(Question): Would you say that the payments on railroad stocks contributed much to the pressure which burdened the money market in April and October 1847? (Answer): I believe that they hardly contributed anything to the pressure in April. In my opinion they had rather strengthened than weakened the bankers going on into April, and perhaps even into the summer. For the actual employment of the money followed by no means as rapidly as the deposits; as a result

most of the banks had a rather large amount of railroad stocks in their hands in the beginning of the year. [This is corroborated by numerous statements of bankers in C. D. 1848-57.] This gradually melted away in summer and was considerably smaller on December 31. One cause of the pressure in October was the gradual decrease of the railroad funds in the hands of bankers; between April 22, and December 31, the balances of railroads in our hands were reduced by one-third. This effect was produced by railroad deposits in all of Great Britain; they have gradually stripped the banks of deposits (p. 43, 44). ‘Samuel Gurney (Chief of the ill-famed firm of Overend Gurney & Co.) says likewise: In 1846 there was a much greater demand for capital for railways, but it did not raise the rate of interest. There was a condensation of small sums into larger masses, and these larger masses were consumed in our market; so that on the whole the effect was to throw more money on the money market of the city, not so much to take it out.
V.XXV.22

A. Hodgson, Director of the Liverpool Joint Stock Bank, shows to what extent bills of exchange may form a reserve for bankers: It was our custom to hold at least nine-tenths of all our deposits, and all money received from our customers, in our bill books in the shape of bills of exchange, which fell due from day to day…so much so, that the amount of bills due daily during the time of the crisis almost equaled the amount of demands for payment made on us every day (p. 53).

V.XXV.23

Speculative Bills.‘No. 5092. "By whom were the bills of exchange (against sold cotton) mainly endorsed?"‘(R. Gardner, the cotton manufacturer mentioned several times in this work): "By produce jobbers; one trader buys cotton, transfers it to some jobber, draws checks on this jobber, and gets these bills discounted."‘No. 5094. "And these bills of exchange go to the Liverpool banks and are discounted by them?"‘"Yes, and also by others....Had not this accommodation existed, which was mainly allowed by the Liverpool banks, cotton would have been, in my opinion, from 1½ d to 2 d per pound cheaper last year."‘No. 600. "You said that an enormous number of bills of exchange was in circulation, drawn by speculators upon cotton jobbers in Liverpool; does the same apply to your advances on bills of exchange for other colonial products than cotton?"‘(A. Hodgson, banker in Liverpool): "It refers to all kinds of colonial products, but most particularly to cotton."‘No. 601. "Do you, as a banker, try to keep away from bills of exchange of this sort?"‘"Not at all; we regard them as legitimate bills when kept within moderate bounds....This sort of bills is often prolongued."
V.XXV.24

Swindle in the East Indian and Chinese Market, 1847.‘Charles Turner (Chief of one of the first East Indian firms in Liverpool): "We all know the occurrences, which have taken place in the matter of business to

Mauritius and similar businesses. The jobbers were accustomed to make advances on goods, not only after their arrival, for the covering of the bills of exchange drawn for these goods, which is quite in order, and advances on bills of lading...they have also made advances on the product before it had been shipped, and in some cases before it had been manufactured. For instance, I had, in one case in Calcutta, bought bills of exchange amounting to 6-7,000 pounds sterling; the proceeds of these goods went to Mauritius in order to assist in planting sugar there; the bills came to England, and more than half of them were protested; then, when the shipments of sugar finally arrived, by which these bills were to have been paid, it was found that this sugar had already been pawned to third parties, before it had been shipped, or even before it had been boiled (p. 78). Now the goods for the East Indian market must be paid to the manufacturer in cash; but this does not mean much, for if the buyer has some credit in London, he draws on London and discounts the drafts in London, where the discount is now low; he pays the manufacturer with the money so obtained...it takes at least twelve months before a shipper of goods to India receives his return shipment...a man with ten or fifteen thousand pounds sterling going into Indian business would secure credit from some London house to a considerable amount; he would give to this house 1% and draw on it with the understanding, that the proceeds of the goods sent to India are to be sent to this London house; but the tacit understanding on both sides is that the London house shall not have to make any

advances of cash; in other words, the drafts are prolongued until the return shipments arrive. The bills of exchange are discounted in Liverpool, Manchester, London, some of them are held by Scotch banks" (p. 79).‘No. 730. "There is a firm, which recently failed in London; the examination of its books revealed the following condition of affairs: Here is one firm in Manchester, and another in Calcutta; they opened a credit with the London firm for 200,000 pounds sterling; that is, the business friends of this Manchester firm, who sent consignments of goods from Glasgow and Manchester to the firm in Calcutta, drew on the London house up to the sum of 200,000 pounds sterling; at the same time the understanding was, that the Calcutta firm would also draw on the London firm up to the sum of 200,000 pounds sterling; these bills of exchange were sold in Calcutta, other bills of exchange were bought with the proceeds, and these were sent to London in order to enable the firm there to pay the first drafts made by the Glasgow or Manchester firm. In this way this firm sent bills of exchange amounting to 600,000 pounds sterling into the world."‘No. 971. "At present, when a firm in Calcutta buys a ship's cargo (for England) and pays for it with its own drafts on its London correspondent, and when the bills of lading are sent here, these bills of lading are used immediately for the purpose of securing advances in Lombard Street; hence they have eight months time in which to make use of the money before their correspondents have to pay the drafts."‘

V.XXV.25

IV. In the year 1848 a secret committee of the Upper House was in session on an investigation of the causes of the crisis of 1847. The testimony of the witnesses before this committee was not published, however, until 1857 (Minutes of Evidence, taken before the Secret Committee of the H. of L. appointed to inquire into the Causes of Distress, etc., 1857; quoted as C. D. 1848-57). Here Mr. Lister, the Director of the Union Bank of Liverpool, testified among other things to the following: 2444. "There was, in the spring of 1847, an unwarranted extension of credit...because business men transferred their capital from their business to railroads and nevertheless wanted to continue their business on the old scale. Every one thought probably at first that he could sell the railroad stocks at a profit and thus replace the money in the business. He found, perhaps, that this was impossible, and then secured credit in his business where he paid cash formerly. This gave rise to an extension of credit."
V.XXV.26

2500. "These bills of exchange, on which the banks that had accepted them incurred losses, were they bills mainly for corn or for cotton?...They were bills for products of all kinds, corn, cotton and sugar, and products of all sorts. There was at that time nothing, with the exception of oil, perhaps, that did not fall in price."‘2506. "A jobber, who accepts a bill of exchange, does not do so without being

sufficiently secured, also against a fall in the price of the commodity which serves as a security."
V.XXV.27

2512. "Two kinds of bills of exchange are drawn for products. To the first kind belongs the original draft, which is made out on the other side on the importer....The drafts which are made out in this way for products are frequently due before the goods arrive. For this reason the merchant who has not enough money when the products arrive, must pawn them to some broker until he can sell them. Then a draft of the other kind is immediately drawn on the broker by the Liverpool merchant, on the strength of those products...it then becomes the business of the banker to ascertain, whether he has those goods and to what extent he has made advances on them. He must convince himself, that the broker has security, in order to make good eventual losses."
V.XXV.28

2516. "We receive also bills of exchange from foreign countries....Some one buys on the other side a bill of exchange on England, and sends it to some firm in England; we cannot tell by looking at this bill, whether it has been drawn reasonably or unreasonably, whether it represents products or wind."
V.XXV.29

2533. "You said that foreign products of nearly all kinds are sold at a heavy loss. Do you believe, that this was due to unwarranted speculations in these products?"‘"It arose from a very large import, while no adequate consumption existed to take care of it. From all indications the consumption fell off considerably."‘2537. "In October...products were almost unsaleable."
V.XXV.30

How it is that a general scramble for safety is made at the critical stage of a crisis is explained in the same report by an expert of the first order, the worthy and crafty Quaker, Samuel Gurney of Overend Gurney & Co.: 1262. "When a panic reigns, a business man does not ask himself, how profitably he can invest his bank notes, or whether he will lose 1 or 2% in the sale of his treasury notes or 3% bonds. Once that he is under the suggestions of fright, he cares nothing about gain or loss; he gets himself into a safe place, the rest of the world may do what it pleases."
V.XXV.31

V. Concerning the mutual unmasking of two markets Mr. Alexander, a merchant in the East Indian trade, testifies before the Committee of the Lower House on the Bank Acts of 1857 (quoted as B. C. 1857): 4330. "At present, if I invest 6 shillings in Manchester, I get 5 shillings back in India; if I invest 6 shillings in India, I get 5 shillings back in London." In this way the Indian market is exposed by

England, and the English by India. And this took place in the summer of 1857, barely ten years after the bitter experience of 1847!

Part V,

Volume III Chapter XXVI ACCUMULATION OF MONEY-CAPITAL. ITS INFLUENCE ON THE RATE OF INTEREST.

V.XXVI.1

"IN England, a steady accumulation of additional wealth takes place, which has a tendency to assume ultimately the form of money. But next to the desire to acquire money, the most insistent desire is that of disposing of it by some kind of investment bringing interest or profit; for money as money does not bring wealth. Unless, therefore, a gradual and adequate extension of the field of investment takes place simultaneously with this steady accession of additional capital, we must be exposed to periodical accumulations of money seeking investment, which will be of greater or smaller importance according to circumstances. For a long series of years the national debt was the great means of absorbing the superfluous wealth of England. Since it reached its maximum in 1816 and no longer acts as an absorbent, every year a sum of at least 27 millions has been seeking other fields of investment. Moreover, various return payments of capital were made....Enterprises which require a large capital for their execution

and make an opening from time to time for the excess of unemployed capital...are absolutely necessary, at least in our country, in order to take care of the periodical accumulations of the superfluous wealth of society, which cannot find room in the ordinary fields of investment." (The Currency Question Reviewed, London, 1845, p. 32.) Of the year 1845 the same work says: "Within a very short period the prices have leaped upward from the lowest point of depression....The 3% national debt stands almost at par....The gold in the vaults of the Bank of England exceeds all former amounts stored away there. Stocks of all kinds are quoted at prices, which are unheard of in almost every case, and the rate of interest has fallen so much, that it is nearly nominal....All these are proofs that another heavy accumulation of unemployed wealth exists in England, that another period of speculative overheating is imminent." (Ibidem, p 35.)
V.XXVI.2

"Although the import of gold is not a reliable indication of profit in foreign commerce, nevertheless a part of this import of gold, in the absence of any other explanation, represents on its face such a profit." (J. G. Hubbard, The Currency and the Country, London, 1843, p. 41.) Take it that in a period of good steady business, profitable prices, and well supplied circulation of money, a crop failure gives rise to an export of 5 millions of gold and to an import of corn to the same amount. The circulation" (meaning, as we shall see immediately, the unemployed money-capital, not the medium of circulation. F. E.)

"is reduced by the same amount. The private individuals may still possess means of circulation to the same amount, but the deposits of the merchants in the banks, the outstanding balances of the banks with their money brokers, and the reserves in their treasuries will all be reduced, and the immediate result of this reduction to the amount of the unemployed capital will be a rise in the rate of interest, say from 4% to 5%. Since business is sound, confidence is not shaken, but credit will be valued more highly." (Ibidem, p. 42.) "If the prices of commodities fall universally, the superfluous money flows back to the banks in the form of increased deposits, the plethora of unemployed capital reduces the rate of interest to a minimum, and this condition of affairs lasts until either higher prices or a brisker business call the slumbering money into service, or until it has been absorbed by investment in foreign securities or foreign commodities." (P. 68.)
V.XXVI.3

The following extracts are once more taken from the parliamentarian report on Commercial Distress, 1847-57.‘In consequence of the crop failure and famine of 1846-47 a heavy import of means of subsistence was necessary. "Hence a great excess of imports over exports....Hence a considerable drain of money from banks, and an increased demand upon the discount brokers from people who had bills of exchange to discount; the brokers began to inspect the bills of exchange more closely. The accommodation hitherto granted was seriously restricted,

and weak houses failed. Those who relied wholly upon credit went to the wall. This increased the already marked unrest; bankers and others found, that they could not be as certain as formerly of transforming their bills of exchange and other securities into bank notes, in order to fulfill their obligations; they restricted the accommodation still more and frequently refused it altogether; they locked their bank notes up in many instances, in order to meet their own future obligations; they preferred not to let go of them at all. The unrest and confusion increased daily, and without the letter of Lord John Russel the general bankruptcy was imminent." (P. 74-75.) The letter of Russel suspended the Bank Acts.‘The previously mentioned Charles Turner testifies: "Some firms had large means, but they were not available. Their entire capital was tied up in real estate in Mauritius, or in indigo or sugar factories. Once that they had contracted obligations for 5 or 600,000 pounds sterling, they had no means free for the payment of bills of exchange, and finally it was seen, that they could pay their bills of exchange only by means of credit, and so far as that went." (P. 81.)‘The aforesaid S. Gurney said: "At present (1848) there prevails a contraction of business and a great plethora of money.‘No. 1763. I do not believe that it was a lack of capital, which drove the rate of interest so high; it was the alarm, the difficulty of obtaining bank notes."

V.XXVI.4

In 1847 England paid at least nine million pounds sterling in gold to foreign countries for imported means of subsistence. Of this amount seven and a half millions came from the bank of England and one and a half million from other sources. (P. 245.)‘Morris, the Governor of the Bank of England: "On October 23, 1847, the public funds and the canal and railroad stocks were already depreciated by 114,752,225 million pounds sterling." (P. 312.) The same Morris, when questioned by Lord G. Bentinck: "Is it not known to you that all capital invested in papers and products of all kinds was depreciated in the same way, that raw materials, cotton, silk, wool were sent to the continent at the same cut prices, and that sugar, coffee and tea were auctioned off in forced sales?"‘"It was inevitable that the nation should make considerable sacrifices, in order to counteract the drain of gold caused by the enormous imports of means of subsistence."‘"Don't you believe that it would have been better to touch the eight million pounds sterling stored in the vaults of the bank, instead of trying to recover the gold with such sacrifices?"‘"I do not believe that."‘Now to the commentaries on this heroism. Disraeli questions Mr. W. Cotton, the Director and former Governor of the Bank of England. "What was the dividend received by the stockholders of the bank in 1844?"‘"It was 7% for that year."‘"And the dividend for 1847?"‘"Nine per cent."‘"Does the bank pay the income tax for its stockholders in the current year?"‘"Yes, Sir."‘"Did it do so in 1844?"‘"No, Sir."*84‘"Then this Bank Act (of 1844) worked very much to the advantage of the stockholders....The result is, then, that since the introduction of the

new Act the dividend of the stockholders has risen from 7% to 9%, and that the income tax is now also paid by the bank, while formerly it had to be paid by the stockholders?"‘"That is quite right."‘(No. 4356-4361.)
V.XXVI.5

Concerning the formation of hoards in banks during the crisis of 1847, Mr. Pease, a provincial banker, has the following to say: 4605. "As the bank was compelled to raise its rate of interest more and more, the apprehension grew universally; the rural banks increased the quantities of money in their possession and likewise the amounts of their notes; and many of us, who would ordinarily carry only a few hundred pounds in gold or bank notes, stored up at once thousands in cash boxes and desks, since there was great uncertainty concerning the discount and the possibility of circulating bills of exchange on the market; and consequently a universal accumulation of hoards ensued."‘ A member of the Committee remarks: 4691. "Accordingly, whatever may have been the cause during the last 12 years, the result was certainly more in favor of the Jew and the money broker than in favor of the productive class in general."
V.XXVI.6

To what extent a money broker exploits times of crisis, is revealed by Tooke: "In the metal ware business of Warwickshire and Staffordshire very many orders were rejected in 1847, because the rate of interest,

which the manufacturer had to pay for discounting his bills of exchange, would have more than swallowed his entire profit." (No. 5451.)
V.XXVI.7

Let us now take another report of Parliament, the Report of the Select Committee on Bank Acts, communicated from the Commons to the Lords, 1857 (quoted further along as B. C. 1857). In it Mr. Norman, Director of the Bank of England and a leading light among the champions of the Currency Principle, is questioned as follows:
V.XXVI.8

3635. "You said you were of the opinion, that the rate of interest depends, not on the mass of bank notes, but on the demand and supply of capital. Would you state, what you comprise under the head of capital, outside of bank notes and hard cash?"‘"I believe the general definition of capital is: Commodities or services used in production.‘3636. "Do you include all commodities in the term capital, when you speak of the rate of interest?"‘"All commodities used in production."‘3637. "You include all that in the term capital, when you speak of the rate of interest?"‘"Yes, Sir. Let us assume that a cotton manufacturer needs cotton for his factory, then he will probably secure it by obtaining an advance from his banker, and with the money so obtained he will go to Liverpool and buy. What he really needs is cotton; he does not need the bank notes or the money

except as means of getting the cotton. Or he may need the means to pay his laborers; then he again borrows notes and pays the wages of his laborers with them; and the laborers on their part need food and shelter, and the money is a means of paying for them."‘3638. "But interest is paid for this money?"‘"Yes, Sir, in the first instance; but take another case. Take it that he buys the cotton on credit, without getting any advance from the bank; then the difference between the price for cash payment and the price on credit at the time when payment is due is the measure of the interest. There would be interest even if no money existed."
V.XXVI.9

This self-complacent rubbish is quite worthy of this pillar of the Currency Principle. First the brilliant discovery, that bank notes or gold are means of buying something, and that they are not borrowed for their own sake. And this is supposed to explain, that the rate of interest is regulated, by what? By the demand and supply of commodities, that were so far known to regulate only the market prices of commodities. But very different rates of interest are compatible with the same market prices of commodities.‘But now take another look at this slyness. He hears the correct remark: "But interest is paid for this money?" and this, of course, implies the question: "What has the interest, which the banker receives, who does not deal in commodities at all, to do with these commodities? And do not manufacturers receive money at the same rate of interest,

although they invest it in widely different markets, that is, in markets, in which widely different conditions of demand and supply prevail, so far as the commodities used in production are concerned?" And all that this solemn genius has to say in reply to these questions, is that the manufacturer, who buys cotton on credit, pays interest, the measure of which is "The difference between the price for cash payment and the price on credit at the time when payment is due." Vice versa. The prevailing rate of interest, whose regulation the genius Norman is asked to explain, is the measure of the difference between the cash price and the credit price to the time of due payment. First the cotton is to be sold to its cash price, and this is determined by the market price, which is itself regulated by the condition of supply and demand. Say that the price is 1,000 pounds sterling. This concludes the transaction between the manufacturer and the cotton broker, so far as buying and selling is concerned. Now a second transaction is added. This takes place between the lender and the borrower. The value of 1,000 pounds sterling is advanced to the manufacturer in the shape of cotton, and he has to repay it in money, say, in three months. And the interest for 1,000 pounds sterling, determined by the market rate of interest, forms the addition over and above the cash price. The price of cotton is determined by supply and demand. But the price of the advance of the value of cotton, of 1,000 pounds sterling for three months, is determined by the rate of interest. And this fact, that the cotton itself is thus transformed into money-capital, proves to Mr. Norman that interest

would exist, even if no money existed. If there were no money at all, there would certainly be no general rate of interest.
V.XXVI.10

There is, in the first place, the vulgar conception of capital as "commodities used in production." So far as these commodities serve as capital, their value as capital compared to their value as commodities is expressed in the profit, which is made out of their productive or mercantile employment. And the rate of profit has under all circumstances something to do with the market price of the bought commodities and their supply and demand, although it is determined besides by circumstances of quite a different kind. And there is no doubt that the rate of interest is generally limited by the rate of profit. But Mr. Norman is precisely asked to tell us how this limit is determined. It is determined by the supply and demand of money-capital as distinguished from the other forms of capital. Now one might ask furthermore: How are the demand and supply of money-capital determined? It is doubtless true, that a tacit connection exists between the supply of commodity-capital and the supply of money-capital, and also that the demand of the industrial capitalist for money-capital is determined by the actual conditions of real production. Instead of giving us information on this point, Norman offers us the sage opinion, that the demand for money-capital is not identical with the demand for money as such, and this wisdom is advanced for no other reason than that behind him. Above Overstone

and other Currency prophets always stands the bad conscience, which makes them aware that they are trying to make capital of the mere medium of circulation by the artificial method of legislative interference and to raise the rate of interest.
V.XXVI.11

Now to Lord Overstone, alias Samuel Jones Loyd, who is asked to explain, why he takes 10% for his "money," because the "capital" in the country is so scarce.
V.XXVI.12

3653. "The fluctuations in the rate of interest arise from one of two causes: From a change in the value of capital" [excellent! Value of capital, generally speaking, signifies precisely the rate of interest! A change in the rate of interest is thus made to arise from a change in the rate of interest. The phrase 'value of capital' never signifies anything else theoretically, as we have shown in another place. Or, if Lord Overstone means the rate of profit by the phrase 'value of capital,' then this deep thinker comes back to the position that the rate of interest is regulated by the rate of profit!]" or from a change in the sum of money available in the country. All great fluctuations of the rate of interest, great either in duration or in the extent of the fluctuations, may be clearly traced to changes in the value of capital. There can be no more striking illustration of this fact than the rise of the rate of interest in 1847 and again in the two last years (1855-

56); the lesser fluctuations of the rate of interest, which arise from a change in the quantity of the available money, are small in duration and extension. They are frequent, and the more frequent they are, the more effectively they accomplish their purpose." This purpose is no other than that of making bankers like Overstone rich. Friend Samuel Gurney expresses himself very naively on this point before the Committee of Lords, C. D. 1848. "Are you of the opinion, that the great fluctuations of the rate of interest, which took place last year, were advantageous to the bankers and money brokers, or not?"‘"I believe they were advantageous to the money brokers. All fluctuations of business are advantageous to the knowing men."‘1325. "Should not the banker ultimately lose through the high rate of interest owing to the pauperisation of his best customers?"‘"No, Sir, I do not think that this result prevails to any appreciable degree."‘There you can see what talk will do.
V.XXVI.13

We shall recur to the question of the influence of the quantity of available money on the rate of interest later on. But we must note right here that Overstone once again takes one thing for another in this case. The demand for money-capital in 1847 (there was no worry on account of scarcity of money, or the "quantity of available money," as he called it, before October) increased for various reasons, such as the dearness of corn, rising cotton prices, unsaleable sugars through overproduction, railroad speculation and slumps, overcrowding of

foreign markets with cotton goods, the above described forced export to and import from India for the purpose of mere swindling with bills of exchange. All these things, the over-production in industries as well as the underproduction in agriculture, in other words, widely different causes, led to an increased demand for money-capital in the shape of credit and money. The increased demand for money-capital had its causes in the course of the productive process itself. But whatever may have been the causes, it was the demand for money-capital which brought about the rise in the rate of interest, in the value of money-capital. If Overstone means to say that the value of money-capital rose because it rose, he is simply repeating himself. But if he means by "value of capital" a rise in the rate of profit which caused a rise in the rate of interest, we shall see immediately that this was not the case here. The demand for money-capital, and consequently the "value of capital," may rise even though the profit may decrease; as soon as the relative supply of money-capital decreases, its "value" increases. Overstone wants to establish the fact that the crisis of 1847, and the high rate of interest going with it, had nothing to do with the "quantity of available money," that is, with the regulations of the Bank Acts of 1844 which he had inspired; but as a matter of fact this crisis had something to do with these things, so far as the fear of exhausting the bank reserve‘a creation of Overstone‘added a money panic to the crisis of 1847-48, But this is not the main point here. There was a dearth of money-capital, caused by the excessive volume of operations compared to the available means and brought to an

eruption by disturbances in the process of production due to a crop failure, overcapitalisation of railroads, over-production, particularly of cotton goods, swindling practices in the Indian and Chinese business, speculation, superfluous imports of sugar, etc. What the people, who had bought corn at 120 shillings per quarter, lacked when it fell to 60 shillings, were the 60 shillings which they had paid too much and the corresponding credit for that amount in the Lombard advance on corn. It was by no means the lack of bank notes that prevented them from transforming their corn into money at its old price of 120 shillings. The same things applied to those who had bought sugar to such an excess that it became almost unsaleable. It applies likewise to the gentlemen who had tied up their floating capital in railroads and relied on credit to make up for it in their "legitimate" business. To Overstone all this is expressed in "a moral sense of the enhanced value of his money." But this enhanced value of money-capital had its direct counterpart on the other side in the shape of the depreciated money-value of the real capital (commodity-capital and productive capital). The value of capital in one form rose, because the value of capital in the other forms fell. Overstone, however, seeks to identify these two kinds of value of different sorts of capital in one sole value of capital in general, and he does it by opposing both of them to a scarcity of the medium of circulation, of available money. But the same amount of money-capital may be loaned with very different quantities of medium of circulation.

V.XXVI.14

Take, for instance, his example of the year 1847. The official bank rate of interest stood at 3 to 3½% in January; 4 to 4½% in February. In March it was generally 4%. April (panic) 4 to 7½%. May 5 to 5½%. June on the whole 5%. July 5%. August 5 to 5½%. September 5% with trifling variations of 5¼, 5½, 6%. October 5, 5½, 7%. November 7 to 10%. December 7 to 5%.‘In this case the interest rose, because the profits decreased and the money-values of commodities fell enormously. If Overstone says here that the rate of interest rose in 1847, because the value of capital rose, he cannot mean anything else by "value of capital" but the value of money-capital, and this is precisely the rate of interest and nothing else. But later the cloven hoof appears and the value of capital is identified with the rate of profit.
V.XXVI.15

As for the high rate of interest in 1856, Overstone was indeed ignorant of the fact that this was partially a symptom of the supremacy of credit jobbers, who paid interest, not from their profit, but with the capital of others; he maintained even a few months before the crisis of 1857 that "business is quite sound."
V.XXVI.16

He testifies furthermore: 3722. "The conception that the business profit is destroyed by raising the rate of interest is highly erroneous.

In the first place, a rise in the rate of interest is rarely of long duration; in the second place, if it is of long duration and considerable, it is in the nature of things a rise in the value of capital, and why does the value of capital rise? Because the rate of profit has risen."‘Here, then, we learn at last, what the meaning of "value of capital" is. We remark, by the way, that the rate of profit may hold itself at a high level for a long time, and yet the industrial capitalist's profit may fall and the rate of interest rise to a point where it swallows the greater portion of the profit.
V.XXVI.17

3724. "The raise of the rate of interest was a result of the enormous expansion of business in our country, and of the great rise in the rate of profit; and if complaint is made, that the raised rate of interest destroys these two things, which were its own cause, it is a logical absurdity, which one does not know how to characterise."‘This is just as logical as though he had said: The increased rate of profit was the result of the raise of prices by speculation, and if complaint is made, that the raise of prices destroys its own cause, namely speculation, it is a logical absurdity, etc. That anything can ultimately destroy its own cause, is a logical absurdity only for the usurer, who is in love with the high rate of interest. The greatness of the Romans was the cause of their conquests, and their conquests destroyed their greatness. Wealth is the cause of luxury, and luxury has a destructive influence upon wealth. The wiseacre! The idiocy of the present bourgeois world

cannot be characterised more markedly than by the respect, which the "logic" of the millionaire, of this dunghill aristocrat, commanded in all England. By the way, even if high profits and an expansion of business may be the cause of a high rate of interest, a high rate of interest is for that reason by no means a cause of high profit. The question is precisely, whether such a high rate of interest (as was seen actually during the crisis) did not continue, or even reach its climax, after the high rate of profit had long gone the way of the flesh.
V.XXVI.18

3718. "As for a great increase of the rate of discount, it is a circumstance, which arises entirely from the increased value of capital, and the cause of this increased value of capital, I believe, may be discovered by every one with perfect clearness. I have already mentioned the fact, that during the 13 years, which this Bank Act was in force, the commerce of England grew from 45 to 120 million pounds. Consider all the events implied by this brief statement in figures, consider the enormous demand for capital, which such a gigantic increase of commerce carries with it, and consider at the same time, the natural source of this great demand, namely the annual savings of the country, have been consumed during the last three or four years by unprofitable expenditures for purposes of war. I confess, I am surprised, that the rate of interest is not much higher; or in other words, I am surprised, that the shortage of capital in

consequence of these gigantic operations is not much more stringent, than you have found it to be."
V.XXVI.19

What a wonderful mixture of words on the part of our logician of usury! Here he is again with his increased value of capital! He seems to imagine, that on one side this enormous expansion of the process of reproduction took place, an accumulation of real capital, and that on the other side a "capital" existed, for which an "enormous demand" arose, in order to accomplish this gigantic increase of commerce! Was not this enormous increase of production itself this increase of capital, and if it created a demand, did it not also create the supply, including an increased supply of money-capital? If the rate of interest rose so high, it did so merely because the demand for money-capital increased still more rapidly than its supply, which means, in other words, that the expansion of industrial production carried with it a greater volume of its transactions on a credit basis. That is to say, the actual industrial expansion caused an increased demand for "accommodation," and this last demand is evidently what our banker means by the "enormous demand for capital." It was surely not the expansion of this mere demand for capital, which raised the export business from 45 to 120 million pounds sterling. And again, what does Overstone mean when he says, that the annual savings of the country swallowed by the Crimean War form the natural source of the supply for this great demand? In the first place, how did England

get its accumulations from 1792 to 1815, which was a far greater war than the little Crimean War? In the second place, if the natural source dries up, from what source did capital flow then? It is well known that England did not ask for any loans from foreign countries. But if there is an artificial source aside from the natural one, it would be a very peculiar method for a nation to utilise the natural source in war and the artificial one in business. But if only the old money-capital was available, could it double its effectiveness through a high rate of interest? Mr. Overstone thinks evidently that the annual savings of the country (which were supposed to have been consumed in this case) are converted only into money-capital. But if no real accumulation, that is, no real expansion of production and augmentation of the means of production, took place, what good would the accumulation of debtor's claims in money on this production do?
V.XXVI.20

The increase in the "value of capital," which follows from a high rate of profit, is mistaken by Overstone for an increase, which follows from a greater demand for money-capital. This demand may increase for reasons, which are quite independent of the rate of profit. He quotes himself some examples, which show that it rose in 1847 as a result of the depreciation of real capital. He means by the value of capital now real capital now money-capital, just as it may suit his purpose.
V.XXVI.21

The dishonesty of our banking lord, and his narrow minded banker's point of view, which he aggravates by posing as a schoolmaster, are further revealed by the following: 3728. "You said, that in your opinion the rate of discount is of no particular significance for the merchant; will you kindly state what you regard as an ordinary rate of profit?"‘Mr. Overstone declares that it is "impossible" to answer this question.‘3729. "Suppose the average rate of profit to be from 7 to 10%; in that case, a change in the rate of discount from 2% to 7 or 8% must appreciably affect the rate of profit, must it not?" [This question confounds the rate of industrial profit with the average rate of profit and overlooks the fact, that this last rate of profit is the common source of interest and industrial profit. The rate of interest may leave the average rate of profit untouched, but not the industrial profit.] Overstone replied: "In the first place, business men will not pay a rate of discount, which takes away most of their profits beforehand; they will rather close up their business." [Yes, if they can do so without ruining themselves. So long as their profit is large, they pay the discount, because they are willing, and when profit is low, they pay the discount because they must.] "What does discount mean? Why does a man discount a bill of exchange?...Because he desires to obtain a larger capital." [Hold on! Because he desires to anticipate the return of his tied-up capital in the form of money and to avoid the stopping of business; because he must meet due payments. He demands additional capital only when business is good,

or when he speculates on another man's capital, though business may be bad. The discount is by no means a mere device to expand business.] "And why does he wish to obtain command of a greater capital? Because he wants to invest this capital; and why does he want to invest this capital? Because it is profitable; but it would not be profitable for him, if the discount were to swallow his profit."
V.XXVI.22

This self-complacent logician assumes that bills of exchange are discounted only for the purpose of expanding business, and that business is expanded, because it is profitable. The first assumption is wrong. The ordinary business man discounts, in order to anticipate the money-form of his capital and thereby to keep his process of reproduction in flow; not in order to expand his business or secure additional capital, but in order to balance the credit which he gives by the credit which he takes. And if he wants to expand his business on credit, the discounting of bills will do him little good, because it is merely the transformation of capital, which he has already in his hands, from one form into another; he will rather take up a direct loan for a long time. Only the credit swindler will get his fraudulent bills of exchange discounted for the purpose of expanding his business, in order to cover one rotten business by another; not for the purpose of making profits, but of getting possession of the capital of another man.
V.XXVI.23

After Mr. Overstone has thus identified discount with the borrowing of additional capital [instead of identifying it with the transformation of bills of exchange representing capital into money], he beats at once a retreat, when the thumbscrews are applied to him.‘3730. "Must not merchants, once that they are engaged in business, continue their operations for a certain period of time in spite of a temporary increase in the rate of interest?"‘Overstone: "There is no doubt, that in any single transaction, if a man can get hold of capital at a low rate of interest instead of a high rate of interest, taking the matter from this narrow point of view, that it is pleasant for him."‘But it is a very wide point of view, which enables Mr. Overstone now to understand by "capital" all of a sudden only his banker's capital, and to assume that the man, who discounts a bill of exchange with him, is a man without capital, just because his capital exists in the form of commodities, or because the money-form of his capital is a bill of exchange, which Mr. Overstone converts into another money-form. V.XXVI.24

3732. "With reference to the Bank Act of 1844, can you state what was the approximate relation of the rate of interest to the gold reserve of the bank; is it true, that, if the gold in the bank amounted to 9 or 10 millions, the rate of interest was 6 or 7%, and when it amounted to 16 millions, the rate of interest was about 3 or 4%?" [The cross-examiner wants to compel him to explain the rate of

interest, so far as it is influenced by the amount of gold in the bank, by the rate of interest, so far as it is influenced by the value of capital.]‘"I do not say, that this is the case...but if it is, then we should in my opinion resort to still more stringent measures than those of 1844; for if it should be true, that the greater the quantity of gold the lower the rate of interest, then we should go to work, according to this view of the matter, and increase the gold reserve to an unlimited amount, and then we should reduce the rate of interest to zero."‘The cross-examiner Cayley, unmoved by this poor joke, continues: 3733. "If this were so, assuming that 5 millions in gold were returned to the bank, then in the course of the next six months the gold reserve would amount to 16 millions, and assuming that the rate of interest should fall thus to 3 or 4%, how could one maintain, that the fall in the rate of profit was due to a great slump in business?"‘"I said the recent great increase in the rate of interest, not the fall in the rate of interest, is intimately connected with the great expansion of business."‘But what Cayley says is this: If a rise of the rate of interest together with a contraction of the gold reserve, is an indication of an expansion of business, then a fall of the rate of interest together with an expansion of the gold reserve, must be an indication of a contraction of business. Overstone has no answer to this.‘3736. Question: "I note that Your Lordship said that money is an instrument for securing capital." [This is precisely a mistake, this conception of money as an instrument; it is a form of capital.] "During a decrease of the gold reserve (of the Bank of England) does

not the difficulty consist rather in the fact that capitalists cannot get any money?"‘Overstone: "No, it is not the capitalists, it is the non-capitalists, who seek to obtain money, in order to carry on the business of people, who are not capitalists."‘Here he declares point blank, that manufacturers and merchants are not capitalists, and that the capital of the capitalist is only money-capital.‘3737. "Are the people who draw bills of exchange no capitalists?"‘"The people who draw bills of exchange are probable capitalists and probably not."‘Here he is stuck.
V.XXVI.25

He is then asked, whether the bills of exchange of merchants do not represent the commodities, which they have sold or shipped. He denies, that these bills represent the value of the commodities just exactly as a bank note represents gold. (3740 and 41.) This is a little insolent.
V.XXVI.26

3742. "Is not the purpose of the merchant that of obtaining money?"‘"No; to obtain money is not the purpose of drawing a bill of exchange; to obtain money is the purpose of discounting the bill."‘The drawing of bills of exchange is a conversion of commodities into a form of credit-money, just as the discounting of bills of exchange is the conversion of credit-money into other money, namely bank notes. At any rate Mr. Overstone admits here, that the purpose of

discounting is to obtain money. A while ago he said that discounting was a means, not of transforming capital from one form into another, but of obtaining additional capital.
V.XXVI.27

3742. "What is the great desire of the business world under the pressure of a panic, such as occurred according to your testimony in 1825, 1837 and 1839; do they want to secure possession of capital or of legal tender money?"‘"They want to obtain command of capital, in order to continue their business."‘Their purpose is to obtain means of payment for due bills of exchange on themselves, on account of the prevailing lack of credit, so that they may not have to get rid of their commodities below price. If they have no capital at all themselves, then they receive with the means of payment at the same time capital, because they receive value without giving an equivalent. The desire to obtain money as such consists always in the wish to transform value from the form of commodities or creditor's claims into money. Hence also, aside from crisis, the great difference between the borrowing of capital and discount, the last being a mere transformation of money claims from one shape into another, or into real money.
V.XXVI.28

[I take the liberty, in my capacity of editor, to interpolate a few remarks here.]

V.XXVI.29

With Norman as well as Loyd-Overstone the banker always figures as a man, who advances "capital" to others, and his customers appear as people, who demand "capital" from him. Thus Overstone says, that people have bills of exchange discounted through him, "because they wish to obtain capital" [3729], and that it is pleasant for such people to "obtain command of capital" at a "low rate of interest" [3730]. "Money is an instrument for obtaining capital" [3736], and during a panic the great desire of the business world is to "obtain command of capital" [3743]. All the confusion of Loyd and Overstone notwithstanding they reveal at least the fact that they call the thing, which the banker gives to his customer, capital, and that this is a thing formerly not in the possession of the customer, but advanced to him in addition to the one already in his hands.

V.XXVI.30

The banker has become so well accustomed to figure as the distributor [through loans] of the social capital available in the form of money, that he considers every function, by which he hands out money, as loaning. All the money which he pays out appears to him as a loan. If the money is directly loaned, it is literally true. If it is invested in the discounting of bills, then it is in fact advanced by himself until the bill becomes due. In this way the conception grows upon him that he cannot make any payments without loaning money

to somebody. And these are loans, not merely in the sense that every investment of money, which has for its object the taking of interest or profit, is economically considered an advance of money, which the owner of money in his capacity as a private individual makes to himself in his capacity as an entrepreneur. They are loans in the definite sense that the banker loans to his customer a sum of money, which constitutes an addition to the capital already held by him.
V.XXVI.31

It is this conception, which, transferred from the banker's office to political economy, has created the confusing controversy, whether the thing, which the banker loans to his customer in the shape of cash money, is capital or mere money, medium of circulation or currency. In order to decide this fundamentally simple controversy, we must place ourselves in the position of a customer of a bank. It depends what this customer wants and receives.
V.XXVI.32

If the bank allows to its customer a loan on his own private credit, without any security on his part, then the matter is clear. He certainly receives in that case an advance of a definite amount in addition to the capital so far invested by him. He receives this advance in the form of money; it is not merely money, but money-capital.
V.XXVI.33

If on the other hand, he receives an advance on depositing securities, etc., then this is money paid to him on condition that he pay it back, but it is not capital. For the securities also represent capital, and at that of a larger amount than the money advance upon them. The recipient of the advance receives less capital-value than he deposits as a security; hence the advance is not additional capital for him. He does not agree to this transaction, because he needs capital‘for he has this in his securities‘but because he needs money. Therefore we have in this case an advance of money, not of capital.
V.XXVI.34

If the loan is granted by discounting bills, then even the form of an advance disappears. The transaction is then purely one of buying and selling. The bill passes by endorsement into the possession of the bank, while the money passes into the possession of the customer. There is no question of any return payment on either side. If a customer buys with a bill of exchange or some similar instrument of credit cash money, it is no more an advance than it is if he buys cash money with other commodities, such as cotton, iron, corn. Still less can this be called an advance of capital. Every purchase and sale between merchant and merchant transfers capital. But an advance of capital takes place only then, when a bill is a fraudulent one, which does not represent any commodities at all, and no banker will take such a bill, if he is aware of its nature. In the regular discounting business the customer of the bank does not, therefore, receive any

advance, either of capital or of money, but he receives money for sold commodities.
V.XXVI.35

The cases, in which the customer demands capital from a bank and receives it are thus very plainly distinguished from those, in which he merely receives an advance of money or buys it from the bank. And since particularly Mr. Loyd Overstone very rarely advanced any funds without collateral [he was the banker of my firm in Manchester] it is very evident that his beautiful descriptions of the great quantities of capital loaned by the generous bankers to the manufacturers in need of capital are gross inventions.
V.XXVI.36

In chapter XXXII Marx says practically the same thing: "The demand for means of payment is a mere demand for convertibility into money, so far as merchants and producers have good securities to offer; it is a demand for money-capital whenever there is no collateral, so that an advance of means of payment gives to them not only the form of money, but also the equivalent, whatever be its form, with which to make payment."‘And again in chapter XXXIII: "Under a developed system of credit, when the money is concentrated in the hands of the bankers, it is they, at least nominally, who make advances of money. This advance does not refer to the money already in circulation. It is an advance made to circulation, not an advance of capital circulated

by it."‘Likewise Mr. Chapman, who ought to know, corroborates this conception of the discounting business: B. C. 1857: "The banker has the bill, the banker has bought the bill." Evid. Question 5139.
V.XXVI.37

We shall return to this subject in chapter XXVIII.‘F. E.] 3744. "Will you kindly describe, what you really mean by the term capital?"‘ Overstone: "Capital consists of various commodities, by means of which trade is carried on; there is a fixed capital and there is a circulating capital. Your ships, your docks, your wharves are fixed capital, your means of subsistence, your clothes, etc. are circulating capital."
V.XXVI.38

3745. "Has the drain of gold to foreign countries injurious consequences of England?"‘"Not so long as one combines this term with a rational meaning." [Then follows the old Ricardian theory of money]..."in the natural condition of things the money of the world distributes itself among the various countries of the world in certain proportions; these proportions are such, that with such a distribution [of money] the commerce between any one country on one side and all other countries on the other side is one of mere exchanges; but there are disturbing influences, which affect this distribution from time to time, and when these influences arise, a portion of the money of a given country flows off to other countries." 3746. "You are now using

the term 'money'. If I understood you correctly on former occasions, you called this a loss of capital."‘"What was it that I called a loss of capital?"‘3747. "The export of gold."‘"No, I did not say that. If you treat gold as capital, then it is doubtless a loss of capital; it is a giving away of a certain portion of precious metal, of which the world money consists."‘3748. "Did you not say before that a change in the rate of discount is a mere indication of a change in the value of capital?"‘"Yes."‘3749. "And that the rate of discount in general changes with the gold reserve in the Bank of England?"‘"Yes, but I have already stated that the fluctuations of the rate of interest, which arise from a change in the quantity of money" [so this is what he calls the quantity of gold actually existing] "are very significant...."
V.XXVI.39

3750. "Then do you mean to say that a decrease of capital has taken place, when a longer, but still temporary, raise of the discount above the ordinary quotation has taken place?"‘"A decrease in a certain sense of the word. The relation between capital and the demand for it has changed; but it may be only through an increased demand, not through a decrease in the quantity of capital."‘
V.XXVI.40

[But capital was for him precisely money or gold, and a little before that he had explained the rise of the rate of interest by a rise of the

rate of profit, which was due to an expansion, not to a contraction of business or capital.]
V.XXVI.41

3751. "What kind of capital is it that you have particularly in mind here?"‘"That depends entirely on what sort of a capital that every one needs. It is the capital which a nation has at its disposal in order to carry on its business, and if this business is doubled, a great increase must occur in the demand for that capital with which it is to be carried on." [This shrewd banker doubles first the business and then the demand for capital with which it is to be doubled. He never sees anything else but his customer, who asks Mr. Loyd for more capital by which to double the volume of his business.]‘"Capital is like any other commodity;" [but according to Mr. Lloyd capital is nothing else but the totality of commodities] "it changes its price" [that is, the commodities change their price twice, one as commodities and the second time as capital] "according to supply and demand."
V.XXVI.42

3752. "The fluctuations in the rate of discount are in a general way connected with the fluctuations of the gold reserve in the vaults of the bank. Is this the capital to which you refer?"‘"No."‘3753. "Can you give an example, showing when a great supply of capital was accumulated in the Bank of England and at the same time the rate of discount stood high?"‘"In the Bank of England it is not capital that is

accumulated, but money."‘3754. "You testified that the rate of interest depends on the quantity of capital; will you kindly state, what kind of capital you mean, and whether you can quote an example, where a great supply of gold was held in the bank and at the same time the rate of interest was high?"‘"It is very probable" [aha!] "that the accumulation of gold in a bank may coincide with a low rate of interest, because a period of low demand for capital" [namely money-capital; the time to which reference is made here, 1844 and 1845, was a period of prosperity] "is a period, in which naturally the means or instrument, by which capital is commanded, can accumulate."‘3755. "You think, then, that no connection exists between the rate of discount and the quantity of gold in the bank vaults?"‘"A connection may exist, but it is not a connection on principle;" [but his Bank Act of 1844 made it precisely a principle of the Bank of England to regulate the rate of interest by the quantity of gold in its possession] "there may be a coincidence of time,"‘3758. "Do you intend to say that the difficulty of the merchants in this country, during times of scarcity of money due to a high rate of interest consists of obtaining capital, and not in obtaining money?"‘"You are throwing together two things, which I do not bring together in this form; the difficulty consists in getting capital, and it also consists in getting money....The difficulty of obtaining money, and the difficulty of obtaining capital, is the same difficulty considered at two different stages of its development."‘Here the fish is caught once more. The first difficulty is to discount a bill of exchange, or to obtain a loan on security of

commodities. It is the difficulty of converting capital, or a commercial equivalent for capital, into money. And this difficulty expresses itself, among other things, in a high rate of interest. But after the money has been obtained, in what does the second difficulty consist if it is merely a question of paying, has any one any difficulty in getting rid of his money? And if it is a question of buying, where has any one ever had any difficulty in times of crisis in buying anything? Supposing, for the sake of argument, that this should refer to the specific case of a dearth in corn, cotton, etc., this difficulty should become apparent only in the price of these commodities, not in that of money-capital, that is, not in the rate of interest; but the difficulty, so far as it refers to the price of commodities, is overcome by the fact that our man now has the money to buy them.
V.XXVI.43

3760. "But a higher rate of discount is an increased difficulty of obtaining money, is it not?"‘"It is an increased difficulty of obtaining money, but it is not the money, the possession of which is essential; it is only the form" [and this form brings profits into the pockets of the banker] "in which the increased difficulty of obtaining capital presents itself under the complicated relations of a civilised condition."
V.XXVI.44

3763. Overstone's reply: "The banker is the middle man, who receives on one side deposits, and on the other side uses these deposits by

entrusting them, in the form of capital, to the hand of persons, who etc."
V.XXVI.45

Here we have at last what he calls capital. He converts money into capital by "entrusting" it, or, less euphemistically, by loaning it out at interest.
V.XXVI.46

After Mr. Overstone has stated, that a change in the rate of discount is not essentially connected with a change in the quantity of gold reserve in the bank, or in the quantity of available money, but that there is at best only a coincidence in time, he repeats:
V.XXVI.47

3804. "If the money in the country is reduced by export, its value rises, and the Bank of England must adapt itself to this change in the value of money;" [that is, the value of money as capital, in other words, the rate of interest, for the value of money as money, compared with commodities, remains the same] "this is technically expressed by the words, that it raises the rate of interest."
V.XXVI.48

3819. "I never throw the two together." Meaning money and capital, for the simple reason, that he never distinguishes them.

V.XXVI.49

3834. "The very large sum, which had to be paid out for the necessary subsistence of the country [for corn in 1847] and which was, indeed, capital."
V.XXVI.50

3841. "The fluctuations in the rate of discount have doubtless a very close connection to the condition of the gold reserve [of the Bank of England], for the condition of the gold reserve is the indicator of the increase or decrease of the quantity of money existing in a country; and in proportion as the money in a country increases or decreases, the value of money falls or rises, and the bank rate of discount will adapt itself to that."‘Here, then, he admits what he denied once for all in No. 3755-3842. "There is a close connection between the two." Meaning between the quantity of gold in the issue department and the reserve of notes in the banking department. Here he explains the change in the rate of interest by the change in the quantity of money. But what he says is wrong. The reserve may decrease, because the circulating money in the country may increase. This is the case, when the public takes more notes and the metal reserve does not decrease. But in that case the rate of interest rises, because then the banking capital of the Bank of England is limited by the Acts of 1844. But he dare not mention this, since this law provides, that these two departments shall not have anything in common.

V.XXVI.51

3859. "A high rate of profit will always create a great demand for capital; a great demand for capital will raise its value."‘Here, we have at last the connection between a high rate of profit and a demand for capital, as Overstone conceives it. Now, a high rate of profit prevailed in 1844-45, for instance, in the cotton industry, because raw cotton was and remained cheap while the demand for cotton goods was strong. The value of capital [and according to a previous statement Overstone calls capital that which every one needs in his business], in the present case the value of raw cotton, was not increased for the manufacturer. Now the high rate of profit may have induced some cotton manufacturer to take up money for the expansion of his business. Thereby the demand for money-capital rose, and nothing else.

V.XXVI.52

3889. "Gold may be money or not, just as paper may be a bank note or not."

V.XXVI.53

3896. "Do I understand you correctly, then, that you abandon the statement, which you applied in 1840, to the effect that fluctuations in the circulating notes of the Bank of England should be governed by the fluctuations in the quantity of the gold reserve?"‘"I abandon it in

so far...that according to the present condition of our knowledge we must add to the circulating notes those other notes, which are deposited in the bank reserve of the Bank of England."'This is superlative. The arbitrary provision, that the bank may make out as many paper notes as it has gold in the treasury and 14 millions more, implies, of course, that its issue of notes fluctuates with the fluctuations of the gold reserve. But since "the present condition of our knowledge" shows clearly, that the mass of notes, which the bank can manufacture according to this (and which the issue department transfers to the banking department), and which circulating between the two departments of the Bank of England and fluctuate with the fluctuations of its gold reserve, does not determine the circulation of bank notes outside of the walls of the Bank of England, and this last circulation becomes a matter of indifference for the administration of the bank, and the circulation between the two departments of the bank, which shows its difference from the real circulation in the reserve, becomes alone essential. For the outside world this internal circulation is significant only, because the reserve indicates, how close the bank is getting to the legal maximum of its issue of notes, and how much the customers of the bank can still receive from the banking department.
V.XXVI.54

The following is a brilliant example of Overstone's bad faith:
V.XXVI.55

4243. "Does the quantity of capital fluctuate, in your own opinion, to such an extent from one month to another, that its value is changed thereby in the way that we have observed during the last years in the fluctuations of the rate of discount?"‘"The proportion between demand and supply of capital may undoubtedly fluctuate even in short intervals....If France announces to-morrow, that it will take up a very large loan, it will undoubtedly cause at once a great change in the value of money, that is, the value of capital, in England."
V.XXVI.56

4245. "If France announces, that it will suddenly need 30 millions worth of commodities for some purpose or other, a great demand will arise for capital, to use the more scientific and simpler expression,"
V.XXVI.57

4246. "The capital, which France might want to buy with its loan, is one thing; the money, with which France buys this, is another thing; is it the money, which changes its value, or not?"‘"We are coming back to the old question, and that, I believe, is better suited for the study room of a scientist than for this committee room."‘And with this he retires, but not into the study room.*85

Notes for this chapter

84.

In other words, formerly the dividend was first determined and then the income tax deducted on payment of the dividend to the individual stockholder; but after 1844 the income tax was first paid out of the total profit of the bank, and then the dividend paid "free of income tax." The same nominal percentages are therefore higher in the latter case by the amount of the tax.‘F. E.

85.

Further remarks on Overstone's confusion of terms in the matter of capital will be found at the close of chapter XXXII.

Part V,

Volume III Chapter XXVII THE ROLE OF CREDIT IN CAPITALIST PRODUCTION.

V.XXVII.1

The general remarks, which the credit system so far elicited from us, were the following:

V.XXVII.2

I. Its necessary development, for the purpose of procuring the compensation of the rate of profit, or the movements of this compensation, upon which the entire capitalist production rests.

II. Reduction of the cost of circulation.

1) One of the principal expenses of the circulation is money itself, so far as its represents value itself. It is economized by credit in three ways.

A. It is entirely eliminated in a large portion of the transactions.

B. The circulation of the circulating medium is accelerated.*86 This coincides partly with the statement to be made under 2). On one hand, the acceleration is technical; that is, with the same number and quantity of actual transfers of commodities for consumption, a smaller quantity of money or tokens of money performs the same service. This is connected with the technique of the banking business. On the other hand, credit accelerates the velocity of the circulation of money.

C. Replacement of gold money by paper.

2) Acceleration, by credit, of the individual phases of circulation or of the metamorphoses of commodities, and with it an acceleration of the process of reproduction in general. (On the other hand credit permits keeping the acts of buying and selling farther apart and thus serves as a basis for speculation.) Contraction of the reserve funds,

which may be studied from two sides; on one side as a reduction of the circulating medium, on the other as a reduction of that part of capital, which must always exist in the form of money.*87

V.XXVII.4

III. Formation of stock companies. By means of these:

1) An enormous expansion of the scale of production and enterprises, which were impossible for individual capitals. At the same time such enterprises as were formerly carried on by governments are socialised.

2) Capital, which rests on a socialised mode of production and presupposes a social concentration of means of production and labor-powers, is here directly endowed with the form of social capital (a capital directly associated individuals) as distinguished from private capital, and its enterprises assume the form of social enterprises as distinguished from individual enterprises. It is the abolition of capital as private property within the boundaries of capitalist production itself.

3) Transformation of the actually functioning capitalist into a mere manager, an administrator of other people's capital, and of the owners of capital into mere owners, mere money-capitalists. Even if the dividends, which they receive, include the interest and profits of enterprise, that is, the total profit (for the salary of the manager is, or is supposed to be, a mere wage of a certain kind of skilled labor,

the price of which is regulated in the labormarket, like that of any other labor), this total profit is henceforth received only in the form of interest, that is, in the form of a mere compensation of the ownership of capital, which is now separated from its function in the actual process of reproduction in the same way, in which this function, in the person of the manager, is separated from the ownership of capital. The profit now presents itself (and not merely that portion of it, which derives its justification as interest from the profit of the borrower) as a mere appropriation of the surplus-labor of others, arising from the transformation of means of production into capital, that is, from its alienation from its actual producer, from its antagonism as another's property opposed to the individuals actually at work in production, from the manager down to the last day laborer.

In the stock companies the function is separated from the ownership of capital, and labor, of course, is entirely separated from the ownership of means of production and of surplus-labor. This result of the highest development of capitalist production is a necessary transition to the reconversion of capital into the property of the producers, no longer as the private property of individual producers, but as the common property of associates, as social property outright. On the other hand it is a transition to the conversion of all functions in the process of reproduction, which still remain connected with capitalist private property, into mere functions of the associated producers, into social functions.

V.XXVII.5

Before we proceed any further, we call attention to the following fact, which is economically important: Since profit here assumes purely the form of interest, enterprises of this sort may still be successful, if they yield only interest, and this is one of the causes, which stem the fall of the rate of profit, since these enterprises, in which the constant capital is so enormous compared to the variable, do not necessarily come under the regulation of the average rate of profit.
V.XXVII.6

[Since Marx wrote the above, new forms of industrial enterprises have developed, which represent the second and third degree of stock companies. The daily increasing speed, with which production may to-day be intensified on all fields of great industry, is offset on the other hand by the ever increasing slowness, with which the markets for these increased products expand. What the great industries turn out in a few months, can scarcely be absorbed by the markets in years. Add to this the system of protective tariffs, by which every industrial country shuts itself off from all others, particularly from England, and which increases home production still more by artificial means. The results are a chronic overproduction, depressed prices, falling or disappearing profits; in short, the long cherished freedom of competition has reached the end of its tether and is compelled to announce its own palpable bankruptcy. This is shown by the fact, that

the great captains of industry of a certain line meet for the joint regulation of production by means of a kartel. A committee determines the quantity to be produced by each establishment and distributes ultimately the incoming orders. In some cases even international kartels were formed temporarily, for instance, one uniting the English and German iron producers. But even this form of socialisation did not suffice. The antagonism of interests between the individual firms broke through the agreement quite frequently and restored competition. This led in some lines, where the scale of production permitted it, to the concentration of the entire production of this line in one great stock company under one joint management. In America this has been accomplished several times; in Europe the greatest illustration is so far the United Alkali Trust, which has brought the entire Alkali production of the British into the hands of one single business firm. The former owners of the individual works, more than thirty, have received the tax value of their entire establishment in shares of stock, totalling about 5 million pounds sterling, which represent the fixed capital of the trust. The technical management remains in the same hands, but the business management is centralised in the hands of the general management. The floating capital, amounting to about one million pounds, was offered to the public for subscription. The total capital is, therefore, 6 million pounds sterling. In this way competition in this line, which forms the basis of the entire chemical industry, has been replaced in England by monopoly, and the future expropriation of this

line by the whole of society, the nation, has been well prepared.‘F. E.]

V.XXVII.7

This is the abolition of the capitalist mode of production within capitalist production itself, a self-destructive contradiction, which represents on its face a mere phase of transition to a new form of production. It manifests its contradictory nature by its effects. It establishes a monopoly in certain spheres and thereby challenges the interference of the state. It reproduces a new aristocracy of finance, a new sort of parasites in the shape of promoters, speculators and merely nominal directors; a whole system of swindling and cheating by means of corporation juggling, stock jobbing, and stock speculation. It is private production without the control of private property.
V.XXVII.8

IV. Aside from the stock company business, which represents an abolition of capitalist private industry on the basis of the capitalist system itself and destroys private industry in proportion as it expands and seizes new spheres of production, credit offers to the individual capitalist, or to him who is regarded as a capitalist, absolute command of the capital of others and the property of others, within certain limits, and thereby of the labor of others.*88 A command of social capital, not individual capital of his own gives him command of social

labor. The capital itself, which a man really owns, or is supposed to own by public opinion, becomes purely a basis for the superstructure of credit. This is true particularly of wholesale commerce, through whose hands the greatest portion of the social product passes. All standards of measurement, all excuses which are more or less justified under capitalist production, disappear here. What the speculating wholesale merchant risks is social property, not his own. Equally stale becomes the phrase concerning the origin of capital from saving, for what he demands is precisely that others shall save for him. [In this way all France saved recently one and a half billion francs for the Panama Canal swindlers. In fact the entire Panama swindle is here correctly described, fully twenty years before it happened.‘F. E.] The other phrase of the abstention is slapped in the face by his luxury, which now becomes a means of credit by itself. Conceptions, which still have some meaning on a less developed stage of capitalist production, become quite meaningless here. Both success and failure lead now simultaneously to a centralisation of capital, and thus to an expropriation on the most enormous scale. This expropriation extends here from the direct producers to the smaller and smallest capitalists themselves. It is first the point of departure of the capitalist mode of production; its complete accomplishment is the aim of this production. In the last instance it aims at the expropriation of all individuals from the means of production, which cease with the development of social production to be means of private production and products of private production, and which can henceforth be only means of production in

the hands of associated producers, their social property, just as they are social products. However, this expropriation appears under the capitalist system in a contradictory form, as an appropriation of social property by a few; and credit gives to these few more and more the character of pure adventurers. Since property here exists in the form of shares of stock, its movements and transfer become purely a result of gambling at the stock exchange, where the little fish are swallowed by the sharks and the lambs by the wolves. In the stock companies the antagonism against the old form becomes apparent, in which social means of production are private property; but the conversion to the form of shares of stock still remains ensnared in the boundaries of capitalism; hence, instead of overcoming the antagonism between the character of wealth as a social one and as private wealth, the stock companies merely develop it in a new form.
V.XXVII.9

The co-operative factories of the laborers themselves represent within the old form the first beginnings of the new, although they naturally reproduce, and must reproduce, everywhere in their actual organisation all the shortcomings of the prevailing system. But the antagonism between capital and labor is overcome within them, although only in the form of making the associated laborers their own capitalists, that is, enabling them to use the means of production for the employment of their own labor. They show the way, in which a new mode of production may naturally grow out of an old one, when the

development of the material forces of production and of the corresponding forms of social production has reached a certain stage. Without the factory system arising out of the capitalist mode of production the co-operative factory could not develop, nor without the credit system arising out of the same mode of production. The credit system is not only the principal basis for the gradual transformation of capitalist private enterprises into capitalist stock companies, but also a means for the gradual extension of co-operative enterprises on a more or less natural scale. The capitalist stock companies as well as the co-operative factories may be considered as forms of transition from the capitalist mode of production to the associated one, with this distinction, that the antagonism is met negatively in the one, positively in the other.

V.XXVII.10

So far we have considered the development of the credit system, and the latent abolition of capitalist property implied by it, mainly with reference to industrial capital. In the following chapters we shall consider credit with reference to interest-bearing capital as such, both the effect of interest on this capital and the form which it assumes thereby; and on this point we shall have to make a few more specific remarks of economic significance.

V.XXVII.11

For the present we have this to say:

V.XXVII.12

The credit system appears as the main lever of overproduction and overspeculation in commerce solely because the process of reproduction, which is elastic in its nature, is here forced to its extreme limits, and is so forced for the reason that a large part of the social capital is employed by people who do not own it and who push things with far less caution than the owner, who carefully weighs the possibilities of his private capital, which he handles himself. This simply demonstrates the fact, that the production of values by capital based on the antagonistic nature of the capitalist system permits an actual, free, development only up to a certain point, so that it constitutes an immanent fetter and barrier of production, which are continually overstepped by the credit system.*89 Hence the credit system accelerates the material development of the forces of production and the establishment of the world market. To bring these material foundations of the new mode of production to a certain degree of perfection, is the historical mission of the capitalist system of production. At the same time credit accelerates the violent eruptions of this antagonism, the crises, and thereby the development of the elements of disintegration of the old mode of production.
V.XXVII.13

Two natures, then, are immanent in the credit system. On one side, it develops the incentive of capitalist production, the accumulation of

wealth by the appropriation and exploitation of the labor of others, to the purest and most colossal form of gambling and swindling, and reduces more and more the number of those, who exploit the social wealth. On the other side, it constitutes a transition to a new mode of production . It is this ambiguous nature, which endows the principal spokesmen of credit from Law to Isaac Pereire with the pleasant character of swindlers and prophets.

Notes for this chapter

86.
The average circulation of notes of the Bank of France was 106,538,000 francs in 1812 and 101,205,000 francs in 1818; while the circulation of money, the total amount of all receipts and payments, was 2,837,712,000 francs in 1812 and 9,665,030,000 francs in 1818. The activity of the circulation in France in 1818 compared to that of 1812 was therefore, as 3 to 1. The great regulator of the velocity of the circulation is credit...This explains, why a heavy pressure on the money-market generally coincides with a full circulation." (The Currency Question Reviewed, etc., p. 165.) "Between September, 1833, and September, 1843, nearly 300 banks were established in Great Britain, which issued their own notes, the consequence was a restriction of the circulation of notes by two and a half millions, it was 36,035,244 pounds sterling at the end of September, 1833, and 33,518,544 pounds sterling at the end of September, 1843." (L. c., p.

53.) "The wonderful activity of the Scotch circulation enables it to transact with 100 pounds sterling the same amount of business, which requires 420 pounds sterling in England." (L. c., p. 55. This last statement refers only to the technical side of the operation.)

87.

"Before the establishment of banks the amount of capital required for the function of the circulating medium was always greater than the actual circulation of commodities demanded." Economist, 1845, p. 238.

88.

See for instance, in the Times the list of business failures of a critical year like 1857, and compare the private property of the bankrupts with the amount of their debts. "In truth the purchasing power of people, who have capital and credit, exceeds by far anything conceivable by those who have no practical acquaintance with speculative markets." (Tooke, Inquiry into the Currency Principle, p. 73.) "A man who has the reputation of having enough capital for his regular business, and who enjoys good credit in his line, if he has sanguine ideas concerning the rising constellation of the articles carried by him, and if he is lucky in the beginning and course of his speculation, may make purchases of a truly enormous extent compared to his capital" (Ibidem, p. 136). "The manufacturers, merchants, etc., all carry on transactions which exceed their capital by far...Capital is to-day rather the basis, on which a good credit is built up, than the limit of the transaction of any commercial business." (Economist, 1847, p. 333.)

89.

Th. Chalmers.

Part V,

Volume III Chapter XXVIII THE MEDIUM OF CIRCULATION (CURRENCY) AND CAPITAL. TOOKE'S AND FULLARTON'S CONCEPTION.

V.XXVIII.1

THE distinction between currency and capital, drawn by Tooke,*90 Wilson, and others, which indiscriminately confounds the differences between the medium of circulation as money, as money-capital, and as interest-bearing capital (moneyed capital in English parlance), refers to two things.

V.XXVIII.2

The currency circulates on the one hand as coin (money), so far as it promotes the expenditure of revenue, in the transactions between the individual consumers and the retail merchants. In this category belong all merchants, who sell to the consumers, that is, the individual consumers as distinguished from the productive consumers or producers. Here money circulates in the function of coin, although it continually replaces capital. A certain portion of the money in a

certain country is continually devoted to this function, although this portion consists of perpetually varying pieces of individual coin. On the other hand, so far as money promotes the transfer of capital, either as a means of purchase (means of circulation), or as a means of payment, it is capital. It is, therefore, neither its function as a means of purchase, nor that as a means of payment, which distinguishes it from coin, for it may act as a means of purchase also between dealer and dealer, so far as they buy on cash terms one another, and it may serve as a means of payment also between dealer and consumer, so far as credit is given and the revenue consumed before it is paid. The difference, then, is in fact that between the money-form of revenue and the money-form of capital, but not that between currency and capital, for a certain quantity of money circulates in the transactions between dealers as well as those between consumers and dealers. It is, therefore, equally a currency (circulation) in both functions. In Tooke's conception, confusion is introduced into this question in various ways.

1) By confounding the definite distinctions of the two functions;

2) By intermingling with it the question of the quantity of money circulating together in both functions;

3) By intermingling with it the question of the relative proportions of the quantities of currency circulating in the two functions, and thus in the two spheres of the process of reproduction.

I. Confounding the Definite Distinctions.

V.XXVIII.3

Money is said to be currency in the one form, and capital in the other. To the extent that money serves in the one or the other function, be it for the realisation of revenue or the transfer of capital, it performs its duty in buying and selling or in paying, as a means of purchase or payment, and in the wider meaning of the word as currency. The further purposes, to which it is devoted in the accounts of its spender or recipient, who may use it as capital or revenue, do not alter anything in this matter, and this is demonstrated by two facts. Although the kinds of money circulating in the two spheres are different, yet the same price of money, for instance a five pound note, passes from one sphere to the other and performs alternately both functions; this is inevitable for the simple reason, that the retail merchant can give to his capital the form of money which he receives from customers. It may be assumed, that the small change has its center of gravitation in the domain of retail trade; the retail dealer needs it continually to give change and receives it back continually in the payments of his customers. But he also receives money, that is, coin in that metal, which serves as a standard of value, for instance, in England one pound coins, or even bank notes, particularly notes of small denominations, such as five and ten pound notes. These gold coins and notes, with whatever small change he has to spare, are

deposited by the retail dealer every day, or every week, in his bank, and he pays for his purchases by drawing checks on his deposits. But the same gold coins and bank notes are continually withdrawn from the bank, indirectly or directly (for instance, small change by manufacturers for the payment of wages), by the entire public in its capacity as consumer, and flow continually back to the retail dealers, for whom they realise in this way a portion of their capital, and at the same time their revenue, again and again. This last circumstance is important, and it is wholly overlooked by Tooke. Only where money is expended as money-capital, in the beginning of the process of reproduction (Book II, Part I), does capital-value exist purely as such. For in the produced commodities there is contained not merely capital, but also surplus-value; they are not capital alone, but also newly produced capital, capital pregnant with the source of revenue. What the retail dealer gives away for the money returning to him, his commodities, constitutes for him capital plus profit, capital plus revenue.
V.XXVIII.4

Furthermore, the circulating small change, when returning to the retail dealer, rehabilitates for him the money-form of his capital.
V.XXVIII.5

The difference between circulation as a circulation of revenue and a circulation of capital cannot, therefore, be presented as a difference

between currency and capital without creating confusion. This mode of expression is due in the case of Tooke to the fact, that he simply places himself in the position of a banker issuing his own bank notes. The amount of his notes, which is continually in the hands of the public and serves as currency (even if consisting of ever different notes) costs him nothing but paper and printing. They are circulating certificates of indebtedness made out in his own name (bills of exchange), but they bring him money and thus serve as a means of expanding his capital. But they differ from his capital, whether this be his own or borrowed capital. This implies for him a specific distinction between currency and capital, which, however, has nothing to do with the definite definition of terms as such, least of all with those made by Tooke in this case.
V.XXVIII.6

The different terms denoting specific functions‘whether it be the money form of revenue or of capital‘do not change anything in the primal character of money as a medium of circulation; it retains this character, no matter whether it performs the one function or the other. It is true, that money serves more as a medium of circulation in the strict meaning of the term (coin, means of purchase) in its character as the money-form of revenue, on account of the incoherency of the purchases and sales, and because the majority of the spenders of revenue, the laborers, can buy relatively little on credit, while in the transactions of the business world, where the

medium of circulation constitutes the money-form of capital, money serves mainly as a means of payment, partly on account of the concentration, partly on account of the prevailing credit system. But the distinction between money as a means of payment and a means of purchase (currency) refers to money itself; it is not a distinction between money and capital. The distinction is not one between currency and capital, merely because more copper and silver circulates in the retail business, and more gold in wholesale business, so that there is a difference between copper and silver on one side, and gold on the other.

II. Introducing the Question of the Quantity of Money Circulating Together in Both Functions.

V.XXVIII.7

To the extent that money circulates, either as a means of purchase or as a means of payment, no matter in which one of the two spheres and independently of its function of realising revenue or capital, the quantity of its circulating mass is regulated by the laws developed previously in the discussion of the simple circulation of commodities, Book I, Chapter III, 2 b. The degree of the velocity of circulation, in other words, the number of repetitions of the same function as means of purchase and payment by the same pieces of money in a given period of time, the mass of simultaneous purchases and sales, or

payments, the sum of the prices of the circulating commodities, finally the balances of payments to be spared in the same period, determine in either case the mass of the circulating money, of currency. Whether the money so serving represents capital or revenue for the paying or receiving party, is immaterial, and does not alter the matter in any way. Its mass is simply determined by its function as a medium of purchase and payment.

III. Introduction of the Question of the Relative Proportions of the Quantities of Currency Circulating in Both Functions and Thus in Both Spheres of the Process of Reproduction.

V.XXVIII.8

Both spheres of circulation are connected internally, for on the one hand the mass of the revenues to be spent expresses the volume of consumption, and on the other hand the magnitude of the masses of capital circulating in production and commerce express the volume and velocity of the process of reproduction. Nevertheless the same circumstances have a different effect, working even in opposite directions, upon the quantities of the money circulating in both spheres or functions, or on the quantities of currency, as the English express it in banking parlance. And this gives a new justification for the absurd distinction of Tooke between capital and currency. The fact, that the gentlemen of the Currency Theory confound two

different things, is by no means a good reason for making two different conceptions out of this confusion.
V.XXVIII.9

In times of prosperity, great expansion, acceleration and intensity of the process of reproduction, the laborers are fully employed. Generally there is also a rise of wages which makes in a slight measure for their fall below the average level in the other periods of the commercial cycle. At the same time the revenue of the capitalists grow considerably. Consumption increases universally. The prices of commodities also rise regularly, at least in various essential lines of business. Consequently the quantity of the circulating money grows at least within certain limits, since the increasing velocity draws certain barriers around the quantity of the currency. Since that portion of the social revenue, which consists of wages, is originally advanced by the industrial capitalist in the form of variable capital, and always in the form of money, he requires more money in times of prosperity for his circulation. But we must not take this into account twice. We must not count it first as money required for the circulation of the variable capital, and a second time as money required for the circulation of the revenue of the laborers. The money paid to the laborers as wages is spent in retail trade and returns about once a week as a deposit of the retail dealers to the banks, after it has negotiated various intermediary deals in smaller cycles. In times of prosperity the reflux of money proceeds smoothly for the industrial capitalists, and thus the

need of money facilities does not increase for the reason that they have to pay more wages, but rather require more money for the circulation of their variable capital.
V.XXVIII.10

The final result is, that the mass of currency required for the expenditure of revenue increases decidedly in periods of prosperity.
V.XXVIII.11

As for the currency, which is necessary for the transfer of capital for the exclusive use of the capitalists, a period of brisk business is at the same time a period of most elastic and easy credit. The velocity of currency between capitalist and capitalist is regulated directly by credit, and the mass of the currency required for the making of payments and even for cash purchases decreases proportionately. It may increase absolutely, but it decreases under these circumstances relatively, compared to the expansion of the process of reproduction. On the one hand greater amounts of payments are handled without the intervention of any money at all; on the other hand, owing to the great vivacity of the process, the same quantities of money have a greater velocity, both as means of purchase and payment. The same quantity of money promotes the reflux of a greater number of individual capitals.
V.XXVIII.12

On the whole, the currency of money in such periods appears full, although its second portion (the transfer of capital) is at least relatively contracted, while its first portion (the expenditure of revenue) is absolutely expanded.
V.XXVIII.13

The refluxes express the reconversion of commodity-capital into money, M‘C‘M', as we have seen in the discussion of the process of reproduction in Volume II, Part I. Credit renders the reflux in the form of money independent of the time of actual reflux, both for the industrial capitalist and the merchant. Both of them sell on credit; their commodities are gotten rid of, before they resume for them the form of money by returning them really in this form. On the other hand they buy on credit, and in this way the value of their commodities is reconverted either into productive capital or commodity-capital even before this value has been transformed into real money, before the price of commodities is due and paid for. In such periods of prosperity the reflux passes off smoothly and easily. The retail dealer pays the wholesale dealer in collateral, the wholesaler pays the manufacturer in the same way, the manufacturer in like manner the importer of the raw material, and so forth. The appearance of rapid and more secure turn-overs maintains itself always for a certain period after they are past in reality, since the turn-overs of credit take the place of the real ones as soon as credit is well under way. The banks begin to scent danger, as soon as their

customers deposit more bills of exchange than money. See the above testimony of the Liverpool bank director.
V.XXVIII.14

On a previous occasion I have remarked: "In periods of prevailing credit, the rapidity of circulation of money grows faster than the prices of commodities, while in times of declining credit the prices of commodities fall slower than the rapidity of circulation." (Critique of Political Economy, 1859, p. 135-136.)
V.XXVIII.15

In a period of crisis the condition is reversed. Circulation No. I contracts, prices fall, likewise wages of labor; the number of employed laborers is reduced, the mass of transactions decreases. On the other hand, the need of accommodation in the matter of money increases in circulation No. II in proportion as credit decreases. We shall return to this point immediately.
V.XXVIII.16

There is no doubt that, with the decrease of credit which goes with the clogging of the process of reproduction, the mass of circulation No. I required for the expenditure of revenue is contracted, while that of No. II required for the transfer of capital is expanded. But it remains to be analysed, to what extent this statement coincides with the following maintained by Fullarton and others: "A demand for

capital on loan and a demand for additional circulation are quite distinct things, and not often found associated." (Fullarton, l. c. p. 82, title of chapter 5.)*91

V.XXVIII.17

In the first place it is evident, that in the first of the two cases mentioned above, during times of prosperity, when the mass of the circulating medium increases, the demand for it must also increase. But it is likewise evident, that a manufacturer, who draws more or less of his deposit out of a bank in gold or banknotes, because he has more capital to expand in the form of money, does not increase his demand for capital, but merely his demand for this particular form, in which his capital is expended. The demand refers only to the technical form, in which his capital is thrown into circulation. It is well known that a different development of the credit system implies for the same variable capital, or the same quantity of wages, a greater mass of means of circulation (currency) in one country than in another, for instance, more in England than in Scotland, more in Germany than in England. In like manner the same capital invested in agriculture, in the process of reproduction, requires different quantities of money in different seasons for the performance of its function.

V.XXVIII.18

But the contrast drawn by Fullarton is not correct. It is by no means the strong demand for loans, as he says, which distinguishes the

period of depression from that of prosperity, but the ease with which this demand is satisfied in periods of prosperity, and the difficulties which it meets after a depression has become a fact. It is precisely the enormous development of the credit system during a period of prosperity, hence also the enormous development of the demand for loan capital and the readiness with which the supply meets it in such periods, which brings about a shortage of credit during the period of depression. It is not, therefore, the difference in the size of the demand for loans which characterises both periods.
V.XXVIII.19

As we have remarked previously, both periods are primarily distinguished by the fact that in periods of prosperity the demand for currency between consumers and dealers pre-dominates, and in periods of depression that for currency between capitalists. In a period of depression the former decreases, the latter increases.
V.XXVIII.20

What appears as the essential mark to Fullarton and others is the phenomenon, that in such periods, in which the securities in the hand of the Bank of England are on the increase, its circulation of notes is decreasing, and vice versa. Now the level of the securities expresses the volume of the pecuniary accommodation, the volume of the discounted bills of exchange and of the advances on marketable collateral. Thus Fullarton says in the above passage (footnote 91) that

the securities in the hands of the Bank of England vary generally in the opposite direction from its circulation of banknotes, and this corroborates the doctrine long held by private banks to the effect that no bank can increase its issue of banknotes beyond a certain point determined by the needs of the public; but if a bank wants to make advances beyond this limit, it must take them out of its capital, that is, it must either realise on securities or utilise deposits which it would otherwise have invested in securities.
V.XXVIII.21

This reveals at the same time what Fullarton means by capital. What does capital signify here? It means that the bank can no longer make advances with its own banknotes, promissory notes that cost it nothing, of course. But what does it make payments with in that case? With the sums realised by the sale of securities in reserve, that is, government bonds, stocks, and other interest-bearing papers. And what is this money that it gets in return for the sale of such papers? Gold or banknotes, so far as the last named are legal tender, such as those of the Bank of England. What the bank advances, is under all circumstances money. This money now constitutes a part of its capital. This is evident in the case that it advances gold. If it advances notes, then these notes represent capital, because it has given up some actual value, interest-bearing papers, for them. In the case of private banks the notes secured by them through the sale of securities cannot be anything else, in the main, but notes of the Bank of England or

their own notes, since others would hardly be taken in payment for securities. If it is the Bank of England itself, its own notes, which it receives in return, cost it capital, that is, interest-bearing papers. By this means it withdraws its own notes from the circulation. If it reissues these notes, or issues new ones in their stead to the same amount, they represent capital. And they do so equally well, when such notes are used for advances to capitalists, or when they are used later on for investment in securities, as soon as the demand for such pecuniary accommodation decreases. In all these cases the term capital is employed only from the banker's point of view, and it means that the banker is compelled to loan more than his mere credit.
V.XXVIII.22

It is well known that the Bank of England makes all its advances in its own notes. Now, if the bank note circulation of this Bank decreases nevertheless in proportion as the discounted bills of exchange and collateral in its hands, and thus its advances, increase‘ what becomes of the notes thrown into circulation by it, how do they return to the Bank?
V.XXVIII.23

If the demand for money accommodation arises from an unfavorable national balance of trade and implies an export of gold, the matter is very clear. The bills of exchange are discounted in banknotes. The banknotes are exchanged by the bank itself, in its issue department,

which issues gold for them, and this gold is exported. It is as though it were to pay out gold directly, without the intervention of notes, on discounting the bills. Such an increased demand, which may amount to from seven to ten million pounds sterling, naturally does not add a single five-pound note to the inland circulation of the country. Now, if it is said, that the Bank of England advances capital in this case, but not currency, it may mean two things. In the first place it may mean, that the bank does not advance credit, but actual values, a part of its own capital, or of capital deposited with it. In the second place it may mean that it does not advance money for inland, but for international circulation. It advances world money, and money for this purpose must always assume the form of a hoard in its metallic body. In this shape money does not merely represent the form of value, but value itself, whose money-form it is. Although this gold represents capital, both for the bank and the exporting money dealer, both financial and commercial capital, yet the demand for it does not come as a demand for capital, but as a demand for the absolute form of money-capital. This demand arises precisely at the moment, when the foreign markets are overcrowded with unsalable English commodity-capital. What is wanted, then, is capital, but not in its capital as capital. What is wanted is capital in the shape of money, in the shape in which money serves as international world money; and this is its original form of precious metal. The exports of gold are not, as Fullarton, Tooke, etc., claim, a mere question of capital. They are a question of money, even if this be money in one specific function.

This fact that it is not a question of inland currency, as the advocates of the Currency Theory maintain, does not prove, as Fullarton and others think, that it is a question of mere capital. It is a question of money in the form in which money is an international means of payment. "Whether that capital" (that is, the purchase price for the one million quarters of foreign wheat required after a crop failure in the home country) "is transmitted in merchandise or in specie, is a point which in no way affects the nature of the transaction," (Fullarton, 1. c., p. 131) but affects essentially the question, whether an export of gold takes place or not. Capital is transferred in the form of precious metals, because it either cannot be transferred at all in the shape of commodities, or only at a great loss. The fear, which the modern banking system has of gold exports, exceeds anything ever dreamt by the monetary system, which considered precious metals as the only true wealth. Take, for instance, the following cross-examination of the Governor of the Bank of England, Morris, before the Parliamentary Committee on the crisis of 1847-48: Question 3846. "When I speak of the depreciation of stocks and fixed capital, is it not known to you that all capital invested in papers and products of all kinds was depreciated in the same way, that raw materials, cotton, silk, wool, were sent to the continent at the same cut prices, and that sugar, coffee and tea were auctioned off in forced sales."‘"It was inevitable that the nation should make considerable sacrifices, in order to counteract the drain of gold caused by the enormous imports of means of subsistence,"‘3848. "Don't you believe that it would have

been better to touch the eight million pounds sterling stored in the vaults of the bank, instead of trying to recover the gold with such sacrifices?"‘"I do not believe that,"‘It is gold which here stands for the only true wealth.
V.XXVIII.24

Fullarton quotes the discovery of Tooke, that "with only one or two exceptions, and those admitting of satisfactory explanation, every remarkable fall of the exchange, followed by a drain of gold, that has occurred during the last half century, has been coincident throughout with a comparatively low state of the circulating medium, and vice versa." (Fullarton, p.121). This discovery proves that such drains of gold occur generally after a period of excitement and speculation, as "a signal of a collapse already commenced...an indication of overstocked markets, of a cessation of the foreign demand for our productions, of delayed returns, and, as the necessary sequel of all these, of commercial discredit, manufactories shut up, artisans starving, and a general stagnation of industry and enterprise." (p.129.) This is at the same time the best rebuttal of the claim of the advocates of the Currency Theory, that a full circulation drives out bullion and a low circulation attracts it. On the other hand, while the Bank of England generally carries a strong gold reserve during a period of prosperity, this hoard is generally formed during the spiritless and stagnating period, which follows after a storm.
V.XXVIII.25

All this wisdom concerning the drains of gold, then, amounts to saying that the demand for international media of circulation and payment differs from the demand for national media of circulation and payment (and this implies the self-evident fact that "the existence of a drain does not necessarily imply any diminution of the internal demand for circulation," as Fullarton says on page 112 of his work); and that the sending abroad of precious metals and their throwing into international circulation is not identical with the throwing of notes or specie into the internal circulation. For the rest I have shown on a previous occasion, that the movements of a hoard in the shape of a reserve fund for international payments has nothing to do as such with the movements of money as a medium of circulation. It is true that the question is complicated by the fact that the different functions of a hoard, which I have developed from the nature of money, are here placed upon the shoulders of one sole reserve fund, that is, the function of money as a reserve fund for payments of due bills in the interior business; the function of a reserve fund of currency; finally, the function of a reserve fund of world money. It follows from this that under certain circumstances a drain of gold from the Bank to the internal market may be combined with a like drain to the international market. The question is further complicated by the fact that this reserve fund has been loaded with the additional function of serving as a fund for guaranteeing the convertibility of bank notes in countries, in which the credit system and credit money are developed.

And on top of all this comes the concentration of the national reserve fund in one single central bank, and, secondly, its reduction to the smallest possible minimum. This explains Fullarton's plaint (p.143): "One cannot contemplate the perfect silence and facility with which variations of the exchange usually pass off in continental countries, compared with the state of feverish disquiet and alarm always produced in England whenever the treasure in the bank seems to be at all approaching to exhaustion, without being struck with the great advantage in this respect which a metallic currency possesses."
V.XXVIII.26

However, if we leave aside the question of the drain of gold, how can a bank issuing notes, like the Bank of England, increase the amount of the money accommodation granted by it without increasing its issue of bank notes?
V.XXVIII.27

So far as the bank itself is concerned, all the notes outside of its walls, whether they circulate or rest in private treasures, are in circulation, that is, not held in its own possession. Hence, if the bank extends its discounting and lombarding business, its advances on securities, all the bank notes issued for that purpose must flow back to it, for otherwise they would increase the volume of circulation, a thing which is not supposed to happen. This return of notes may take place in two ways.

V.XXVIII.28

First: The bank pays to A notes for securities; A pays with these notes for bills of exchange due to B, and B deposits these notes once more in this bank. This closes the circulation of these notes, but the loan remains. ("The loan remains, and the currency, if not wanted, finds its way back to the issuer." Fullarton, p. 97.) The notes, which the bank loaned to A, have now returned to it; but it still remains the creditor of A, or whoever may have been drawn upon by A in discounting his bills, and it remains the debtor of B for the amount of values expressed in these notes, and B thus has a claim upon a corresponding portion of the capital of the bank.
V.XXVIII.29

Secondly: A pays to B, and B himself, or C who receives them from B, pays with these notes bills due to the bank, directly or indirectly. In that case the bank is paid in its own notes. This concludes the transaction (excepting the return of this payment by A to the bank).
V.XXVIII.30

In what respect, now, shall the loan of the bank to A be regarded as a loan of capital, or as a loan of mere currency?*92
V.XXVIII.31

[This depends on the nature of the loan itself. Three cases must be distinguished.

First Case.‘A receives from the bank the amounts loaned on his own personal credit, without giving any security for them. In this case he does not merely receive means of payment, but also without a doubt some new capital, which he may invest and employ as an additional capital in his business until the day of settlement.

Second Case.‘A has given to the bank securities, national bonds, or stocks as collateral, and received for them, say, two-thirds of their value in the shape of a cash loan. In this case he has received means of payment needed by him, but no additional capital, for he entrusted to the bank a larger capital-value than he received from it. But this larger capital-value was, on the one hand, unavailable for the momentary needs of A, because it was invested as interest-bearing capital in a certain form and could not serve as means of payment; on the other hand, A had reasons of his own for not wanting to convert this capital-value directly into means of payment by selling it. His securities served, among other ends, as a reserve capital, and to that end he set them in motion. The transaction between A and the bank, therefore, consists in a mutual transfer of capital, but in such a way, that A does not receive any additional capital (on the contrary, less capital!) although he receives means of payment which he needs. For the bank, on the other hand, this transaction constitutes a

temporary fixation of money-capital in the form of a loan, a conversion of money-capital from one form into another, and this conversion is precisely the essential function of the banking business.

Third Case.‘A has had a bill of exchange discounted by the bank, and received its value in cash after the deduction of the discount. In this case he has sold to the bank a money-capital which does not represent ready cash for the same amount in the shape of ready cash. He has sold his running bill for cash money. The bill is now the property of the bank. It does not alter the matter that the last endorser of the bill, A, is responsible to the bank for it in default of payment. He shares this responsibility with the other endorsers and with the first writer of the bill, all of whom are responsible to him. In this case, then, we have not any loan to deal with, but only an ordinary sale and purchase. For this reason A has not to make any return payments to the bank. It covers itself by cashing the bill when it becomes due. Here, also, a transfer of capital has taken place between A and the bank, in exactly the same way, which holds good in the sale and purchase of any other commodity, and for this very reason A did not receive any additional capital. What he needed and received were means of payment, and he received them by having the bank convert one form of his money-capital, his bill, into another, money.

It is only the first case, in which there can be any question of a real loan of capital; in the second and third cases the matter can be so regarded only in the sense that every investment of capital implies an advance of capital. In this sense the bank advances capital to A; but for A it is money-capital at best in the sense that it is a portion of his capital in general. And he does not want and use it as a capital specifically. It is specifically a means of payment for him. Otherwise every ordinary sale of commodities, by which means of payment are secured, might be considered as a loan received.‘F. E.]

V.XXVIII.32

In the case of private banks issuing notes we have this difference: If its notes remain neither in the local circulation, nor return to it in the form of deposits, or in payment for due bills of exchange, then these notes fall into the hands of people, who compel the private bank to cash these notes in gold or in notes of the Bank of England. In that event its loan represents indeed an advance of notes of the Bank of England, or, what amounts to the same thing for the private bank, of gold, in other words, of a portion of its banking capital. The same holds good in the case that the Bank of England itself, or some other bank, which has a fixed legal maximum for its issue of notes, must sell securities for the purpose of withdrawing its own notes from circulation and giving them out once more in the shape of loans; in

that case the bank's own notes represent a portion of its mobilised banking capital.
V.XXVIII.33

Even if the circulation were purely metallic, it would be possible, first, that the drain of gold [Marx evidently refers here to a drain of gold that would, at least partially, go to foreign countries.‘F.E.] might empty the treasury, while, secondly, its loans on securities might grow considerably, but flow back to it in the form of deposits, or of payments on due bills of exchange (since the gold is principally demanded from the bank for the payment of balances in the settlement of previous transactions); so that, on one side, the total treasure of the bank would be decreasing with an increase of securities in its hands, while it would be holding the same amount, which it possessed formerly as owner, in the capacity of debtor of its customers, who made deposits, and the total quantity of currency would be decreasing.
V.XXVIII.34

Our assumption so far has been, that the loans are made in notes, so that they carry with them a momentary, but immediately disappearing, increase of the issue of notes. But this is not necessary. Instead of paper note, the bank may open a credit account for A, in which case this A, a debtor of the bank, appears in the role of an imaginary depositor. He satisfies his creditors with checks on the bank, and the

recipient of these checks passes them on to his own banker, who exchanges them for the checks running against him in the clearing house. In this case no intervention of notes takes place at all, and the entire transaction is confined to the fact that the bank collects its own debt in a check drawn on itself, since its actual recompense consists in its claim on A. In this case the bank has loaned to A a portion of its own banking capital, its own credit to him.
V.XXVIII.35

To the extent that this demand for pecuniary accommodation is a demand for capital, it is so only for money-capital. It is capital only from the point of view of the banker, namely gold (in the case of gold exports to foreign countries) or notes of the National Bank, which a private bank can obtain only by purchase against securities, and which, therefore, represent capital for it. Or, again, it is a case of interest-bearing papers, government bonds, stocks, etc., which must be sold in order to obtain gold or banknotes. Such papers, however, if they are government bonds, are capital only for the buyer, for whom their purchase price represents a capital invested in them. By themselves they are not capital, but merely claims on loans. If they are mortgages, they are mere claims on future ground rent. And if they are shares of stocks, they are mere titles of ownership, which entitle the holder to a share in future surplus-values. All these things are no real capital, they form no constituent parts of capital, nor are they values in themselves. By similar transactions money belonging to

the bank may be transformed into deposits, so that the bank, instead of being the owner of this money, owes it to some customer and holds it under a different title of ownership. While this is important as a phenomenon for the bank, yet it does not alter anything in the mass of capital existing in a certain country, or even of money-capital. Capital stands here only for money-capital, and if it is not available in the actual form of money, it stands for a mere title on capital. This is a very important fact, since a scarcity of, and urgent demand for, banking capital is confounded with a decrease of actual capital, which is in such cases rather abundant in the form of means of production and products and swamps the markets.
V.XXVIII.36

It is, therefore, easy to explain, how it is that the mass of securities received by a bank as collateral increases, so that the growing demand for pecuniary accommodation can be satisfied by the bank, while the total mass of currency remains the same or decreases. This total mass is held in check during such periods of money stringency in two ways: 1) By a drain of gold; 2) by a demand for money in its capacity of a mere means of payment, when the issued bank notes return immediately, or when the transactions pass off without the intervention of notes by means of book credit; the payments are thus made wholly by a transaction of credit, and the settlement of these payments was the only purpose of this transaction. It is a peculiarity of money, when it serves merely to square balances of payments (and

in times of crises loans are taken up for the purpose of paying, not of buying; for the purpose of winding up previous transactions, not of beginning new ones), that its circulation is but small, even where balances are not squared by mere operations of credit, without any intervention of money, so that, when there is a heavy demand for pecuniary accommodation, an enormous quantity of such transactions can take place without expanding the circulation. But the mere fact, that the circulation of the Bank of England remains stable or decreases simultaneously with a heavy satisfaction of money-accommodation on its part, does not prove without further ceremony, as Fullarton, Tooke and others assume (owing to their mistake to the effect that pecuniary accommodation is identical with taking up capital on loan as additional capital), that the circulation of money (of banknotes) in its function as a means of payment does not increase and extend. While the circulation of notes as means of purchase is decreasing in periods of business depression, when such a heavy accommodation is necessary, their circulation as means of payment may increase, and the aggregate amount of the circulation, the sum of the notes functioning as means of purchase and payment, may remain stable or may even decrease. The currency in its capacity as a means of payment, of banknotes immediately returning to the bank issuing them, is not a currency in the eyes of those economists. V.XXVIII.37

If the circulation as a means of payment were to increase at a higher rate than it decreases as a means of purchase, the aggregate currency would increase, although the money serving in the capacity of a means of purchase would have decreased considerably in quantity. And this actually happens in periods of crisis, when credit collapses completely, so that commodities and securities are unsalable and bills of exchange cannot be discounted, and nothing goes any more but cash money. Since Fullarton and others do not understand, that the circulation of notes as means of payment is the characteristic mark of such periods of money stringency, they treat this phenomenon as accidental. "With respect again to those examples of eager competition for the possession of banknotes, which characterise seasons of panic and which may sometimes, as at the close of 1825, lead to a sudden, though only temporary, enlargement of the issues, even while the efflux of bullion is still going, these, I apprehend, are not to be regarded as among the natural or necessary concomitants of a low exchange; the demand in such cases is not for circulation" (he should say circulation as a means of purchase) "but for hoarding, a demand on the part of alarmed bankers and capitalists which arises generally in the last act of the crisis" (that is, for a reserve of means of payment) "after a long continuation of the drain, and is the precursor of its termination." (Fullarton, p. 130.)
V.XXVIII.38

In the discussion of money as a means of payment (Volume I, chapter III, 3 b) we have already explained, in what manner, when the chain of payments is suddenly interrupted, money turns from its ideal form into a material and at the same time absolute form of value as compared to the commodities. This was illustrated by some examples (footnotes on pages 156 and 157). This interruption itself is partly an effect, partly a cause of the insecurity of credit and of the circumstances accompanying it, such as overcrowding of markets, depreciation of commodities, interruption of production, etc.
V.XXVIII.39

But it is evident, that Fullarton transforms the difference between money as a means of purchase and money as a means of payment into the mistaken conception of a difference between currency and capital. This is due to the narrow minded banker's conception of circulation.
V.XXVIII.40

It might be asked, finally: What is it that is missing in such periods of stringency, capital or money in its function as a means of payment? And this is a well known controversy.
V.XXVIII.41

In the first place, so far as the stringency is marked by a drain of gold, it is evident that what is demanded is the international means of

payment. But money in its character of international means of payment is gold in its metallic actuality, as a quantity of values in itself, as a mass of values. It is at the same time capital, capital not as commodity-capital, but as money-capital, capital not in the form of commodities but in the form of money (and at that of money in the eminent meaning of the term, in which it exists as a universal world market commodity). It is not a question of a contrast between a demand for money as a means of payment and a demand for capital. The contrast is rather between capital in its money-form and its commodity-form; and the form which is here demanded and which can alone perform any function here, is its money-form.
V.XXVIII.42

Aside from this demand for gold (or silver) it cannot be said that there is a dearth of capital in such periods of crisis. Under extraordinary circumstances, such as a corn famine or a cotton famine, etc., this may be the case; but these are not necessary or regular companions of such periods; and the existence of such a lack of capital cannot be assumed, without further ceremony, from the mere fact, that there is a heavy demand for pecuniary accommodation. On the contrary. The markets are overcrowded and swamped with commodities. Evidently it is not the lack of commodity-capital which causes the stringency. We shall return to this question later.

Notes for this chapter

90.

The business of bankers, setting aside the issue of promissory notes payable on demand, may be decided into two branches, corresponding with the distinction pointed out by Dr. (Adam) Smith of the transactions between dealers and dealers, and between dealers and consumers. One branch of the bankers' business is to collect capital from those who have no immediate employment for it, and to distribute or transfer it to those who have. The other branch is to receive deposits of the incomes of their customers, and to pay out the amount, as it is wanted for expenditure by the latter in the objects of their consumption....the former being a circulation of capital, the latter of currency." Tooke, Inquiry into the Currency Principle, p. 36. The former is "the concentration of capital on the one hand and the distribution of it on the other," the latter is "administering the circulation for local purposes of the district." Ibidem, p. 37. The correct conception is far more approached in the following passage from Kinnear: "Money is used to accomplish two essentially different operations. As a medium of exchange between dealer and dealer it is the instrument, by which transfers of capital are accomplished; that is, the exchange of a certain amount of capital in money for an equal amount of capital in commodities. But money expended in the payment of wages and in the purchase and sale between dealer and consumer is not capital, but revenue; that portion of the revenue of

the community, which is used for daily expenditures. This money circulates continually in daily use, and it is this alone, which is strictly called currency. Advances of capital depend exclusively on the will of the bank or other capitalists, for there are always borrowers to be found; but the amount of currency depends on the needs of the community, within which the money circulates for the purpose of daily expenditure." (J. G. Kinnear, The Crisis and Currency. London, 1847.) 91.

"It is a great error, indeed, to imagine that the demand for pecuniary accommodation (i.e. for the loan of capital) is identical with a demand for additional means of circulation, or even that the two are frequently associated. Each demand originates in circumstances peculiarly affecting itself, and very distinct from one another. It is when everything looks prosperous, when wages are high, prices on the rise, and factories busy, that an additional supply of currency is usually required to perform the additional functions inseparable from the necessity of making larger and more numerous payments: whereas it is chiefly in a more advanced stage of the commercial cycle, when difficulties begin to present themselves, when markets are overstocked, and returns delayed, that interest rises, and a pressure comes upon the Bank for advances of capital. It is true that there is no medium through which the Bank is accustomed to advance capital except that of promissory notes; and that, to refuse the notes, therefore, is to refuse the accommodation. But the accommodation once granted, everything adjusts itself in conformity with the necessities of the

market; the loan remains, and the currency, if not wanted, finds its way back to the issuer. Accordingly, a very slight examination of the Parliamentary Returns may convince any one, that the securities in the hand of the Bank of England fluctuate more frequently in an opposite direction to its circulation than in concert with it, and the example, therefore, of that great establishment furnishes no exception to the doctrine so strongly pressed by the country bankers, to the effect that no bank can enlarge its circulation, if that circulation be already adequate to the purposes to which a banknote currency is commonly applied; but that every addition to its advances, after that limit is passed, must be made from its capital, and supplied by the sale of some of its securities in reserve, or by abstinence from further investment of such securities. The table compiled from the Parliamentary Returns for the interval between 1833 and 1840, to which I have referred in a preceding page, furnishes continued examples of this truth; but two of these are so remarkable that it will be quite unnecessary for me to go beyond them. On the third of January, 1837, when the resources of the Bank were strained to the uttermost to sustain credit and meet the difficulties of the money-market, we find its advances on loan and discount carried to the enormous sum of 17,022,000 pounds sterling, an amount scarcely known since the war, and almost equal to the entire aggregate issues which, in the meanwhile, remain unmoved at so low a point as 17,076,000 pounds sterling! On the other hand, we have, on the fourth of June, 1833, a circulation of 18,892,000 pounds sterling, with

a return of private securities in hand, nearly, if not the very lowest on record for the last half-century, amounting to no more than 972,000 pounds sterling!" (Fullarton, l. c., pages 97 and 98.) That a demand for pecuniary accommodation need not be identical by any means with a demand for gold (what Wilson, Tooke and others call capital) may be seen by the following testimony of Mr. Weguelin, Governor of the Bank of England): "The discounting of bills to this amount" (one million per day for three successive days) "would not reduce the reserve" (of banknotes), unless the public should demand a greater amount of active circulation. The notes issued in the discounting of bills would flow back by way of banks and by means of deposits. Unless such transactions have for their purpose the export of gold, or unless a panic reigns in the inland market, of such character as to cause the public to hold on to the notes instead of depositing them in the banks, the reserve would not be touched by such tremendous transactions. "The Bank can discount one and a half millions daily, and this takes place continually, without touching its reserve in the least. The notes come back as deposits, and the only change that takes place is the mere transfer from one account to the other." (Report on Bank Acts, 1857.) Evidence No. 241,500. The notes serve here merely as means of transferring credit accounts

92.

The passage following here is unintelligible in the original in this connection, and it has been worked over by the editor and inclosed in

brackets. In another connection this point has already been touched upon in chapter XXVI.‘F. E.

Part V,

Volume III Chapter XXIX THE COMPOSITION OF BANKING CAPITAL.

V.XXIX.1

IT is now necessary to find out more accurately, what are the constituent elements of banking capital.
V.XXIX.2

We have just seen, that Fullarton and others transform the distinction between money as a means of circulation and money as a means of payment (or eventually as world money, whenever it is a question of gold drains) into a distinction between currency and capital.
V.XXIX.3

The peculiar role played by capital in this instance brought it about, that this banker's economics taught as insistently that money is indeed capital par excellence as the enlightened economics taught that money is not capital.
V.XXIX.4

In subsequent analysis we shall demonstrate, that in such cases money-capital is confounded with moneyed capital in the sense of interest-bearing capital, while in the first named sense money-capital is but a transient form of capital as distinguished from the other forms of capital, commodity-capital and productive capital.
V.XXIX.5

The banking capital consists 1) of cash money, gold or notes; 2) securities. These again may be divided into two parts: Commercial bills, bills of exchange, which run for some time, become due, and the cashing (discounting) of which is the essentially profitable business of the banker; and public securities, such as government bonds, treasury notes, stocks of all kinds, in brief, interest-bearing papers, which are essentially different from bills of exchange. Mortgages may also be classed with this part. The capital composed of these various constituents is again divided into the banker's business capital, and into the deposits, which form his banking capital, or borrowed capital. In the case of banks with an issue of notes these must be counted also. We leave the deposits and notes out of consideration for the present. It is evident, that nothing is altered in the actual constituents of banking capital (money, bills of exchange, deposits), whether these different elements represent the banker's own capital or deposits, the capital of other people. The same division would remain, whether he

were to carry on his business with his own capital alone or with no other but deposited capital.
V.XXIX.6

The form of the interest-bearing capital is responsible for the fact, that every determined and regular revenue of money appears as interest on some capital, whether it be due to some capital or not. The money revenue is first converted into interest, and with the interest comes also the capital, from which it is drawn. In like manner every sum of money appears as capital in connection with the interest-bearing capital, as long as it is not spent as revenue; that is, it appears as principal compared to the possible or actual interest which it may yield.
V.XXIX.7

The matter is simple. Let the average rate of interest be 5% annually. A sum of 500 pounds sterling would then yield 25 pounds sterling, if converted into interest-bearing capital. Every fixed annual income of 25 pounds sterling may then be considered as interest on a capital of 500 pounds sterling. This, however, is and remains a purely illusory conception, except the case in which the source of the 25 pounds sterling, whether it be a mere title of ownership or claim of indebtedness, or an actual element of production, such as real estate, is directly transferable or assumes a form, in which it becomes

transferable. Let us choose a government debt and wages for an illustration.

V.XXIX.8

The state has to pay to his creditors annually a certain amount of interest for the money loaned from them. In this case the creditor cannot call on the state to give up the principal. He can merely sell his claim, his title of ownership. The capital itself has been consumed, spent by the state. It does not exist any longer. What the creditor of the state possesses is 1) a certificate of indebtedness from the state, amounting, say, to 100 pounds sterling; 2) this certificate gives to the creditor a claim upon the annual revenues of the state, that is, the annual tax revenue, to a certain amount, say, 5 pounds, or 5% ; 3) the creditor may sell this certificate at his discretion to some other person. If the rate of interest is 5 %, and the security given by the state is good, the owner A of this certificate can sell it, as a rule, at its value of 100 pounds sterling to B; for it is the same to B, whether he loans 100 pounds sterling at 5 % annually, or whether he secures for himself by the payment of 100 pounds sterling an annual tribute from the state to the amount of 5 pounds sterling. But in all these cases the capital, the progeny of which (interest) is paid by the state, is illusory, fictitious capital. Not only does the amount loaned to the state exist no longer, but it was never intended at all to be invested as capital, and only by investment as capital could it have been transformed into a self-preserving value. For the original creditor A,

the share of interest from taxes falling to him annually represents so much interest on his capital, just as a certain share of the spendthrift's fortune does for the usurer, although in either case the loaned amount was not invested as capital. The possibility of selling his claim on the revenues of the state represents for A the possible return of his principal. As for B, his capital, from his own private point of view, is invested as interest-bearing capital. So far as the transaction is concerned, B has simply taken the place of A by buying the latter's claim on the state's revenue. This transaction may be multiplied ever so often, the capital of the state debt remains a purely fictitious one, and from the moment that the certificates would become unsalable, the fiction of this capital would disappear. Nevertheless this fictitious capital has its own movements, as we shall see presently.
V.XXIX.9

The capital of the national debt appears as a minus, and interest-bearing capital generally is the mother of all crazy forms, so that, for instance, debts may appear in the eyes of the banker as commodities. Now let us look at wages. Wages are here conceived as interest, so that labor-power stands for capital, which yields this interest. For instance, if the wages for one year amount to 50 pounds sterling, and the rate of interest is 5%, the annual labor-power is equal to a capital of 1,000 pounds sterling. The insanity of the capitalist mode of conception reaches its climax here. For instead of explaining the self-

expansion of capital out of the exploitation of labor-power, the matter is reversed and the productivity of labor-power itself is this mystic thing, interest-bearing capital. In the second half of the 17th century this used to be a favorite conception (for instance with Petty) but it is used even nowadays in good earnest by vulgar economists and more particularly by German statisticians.*93
V.XXIX.10

Unfortunately two disagreeable facts mar this conception. In the first place, the laborer must work, in order to secure this interest. In the second place, he cannot transform the capital-value of his labor-power into cash by transferring it. On the contrary, the annual value of his labor-power is equal to his average annual wages, and his labor has to make good to the seller of his labor-power this same value plus a surplus-value, the increment added by his labor. Under a slave system the laborer has a capital-value, namely his purchase price. And when he is rented out, the renter has to pay, in the first place, the interest on this purchase price, and must furthermore make good the annual wear and tear of the capital.
V.XXIX.11

The forming of a fictitious capital is called capitalising. Every periodically repeated income is capitalised by calculating it on the average rate of interest, as an income which would be realised by a capital at this rate of interest. For instance, if the annual income is

100 pounds sterling and the rate of interest 5%, then these 100 pounds sterling would represent the annual interest on 2,000 pounds sterling, and these 2,000 pounds sterling are regarded as the capital-value of the legal title of ownership upon these 100 pounds sterling annually. For him who buys this title of ownership these 100 pounds sterling of annual income represent indeed the interest on his capital at 5%. All connection with the actual process of self-expansion of capital is thus lost to the last vestige, and the conception of capital as something which expands itself automatically is thereby strengthened. V.XXIX.12

Even when the certificate of indebtedness‘the security‘does not represent a purely fictitious capital, as it does in the case of state debts, the capital-value of such papers is nevertheless wholly illusory. We have seen previously in what manner the credit system creates associated capital. The papers are considered as titles of ownership, which represent this capital. The stocks of railroads, mines, navigation companies, and the like, represent actual capital, namely the capital invested and used in such ventures, or the amount of money advanced by the stockholders for the purpose of being used as capital in such ventures. This does not exclude the possibility that they may become victims of swindle. But this capital does not exist twofold, it does not exist as the capital-value of titles of ownership on one side and as the actual capital invested, or to be invested, in those ventures on the other side. It exists only in this last form, and a

share of stock is merely a title of ownership on a certain portion of the surplus-value to be realised by it. A may sell this title to B, and B may sell it to C. These transactions do not alter anything in the nature of the case. A or B then have their title in the shape of capital, but C has his capital merely in the shape of a title on the surplus-value to be realised by the stock capital.
V.XXIX.13

The independent movement of the value of these titles of ownership, not only of government bonds but also of stocks, adds weight to the illusion that they constitute a real capital by the side of that capital, or that title, upon which they may have a claim. For they become commodities, whose price has its own peculiar movements and is fixed in its own way. Their market value is determined differently from their nominal value, without any change in the value of the actual capital, which expands, of course. On the one hand their market value fluctuates with the amount and security of the yields, on which they have a claim. If the nominal value of a share of stock, that is, the invested sum originally represented by this share, is 100 pounds sterling, and the enterprise pays 10%, instead of 5%, then their market-value, other circumstances remaining the same, rises to 200 pounds sterling, so long as the rate of interest is 5%, for when capitalised at 5%, it now represents a fictitious capital of 200 pounds sterling. He who buys it for 200 pounds sterling receives a revenue of 5% on this investment of capital. If the success of the venture is

such as to diminish the income from it, the reverse takes place. The market value of these papers is in part fictitious, as it is not determined merely by the actual income, but also by the expected income, which is calculated in advance. But assuming the self-expansion of the actual capital to proceed at a constant rate, or, where no capital exists, as in the case of state debts, the annual income to be fixed by law and otherwise sufficiently secured, the price of such securities rises and falls inversely as the rate of interest. If the rate of interest rises from 5% to 10%, then a security guaranteeing an income of 5 pounds sterling will represent only a capital of 50 pounds sterling. If the rate of interest falls from 5% to 2½%, then the same security will represent a capital of 200 pounds sterling. Its value is always but its capitalised income, that is, its income calculated on a fictitious capital of so many pounds sterling at the prevailing rate of interest. In times when there is a stringency of money on the market these securities will, therefore, fall in price for two reasons: First, because the rate of interest rises, and secondly, because they are thrown in large quantities upon the market for the purpose of getting ready cash. This drop in their price takes place independently of the fact, whether the income guaranteed to their owner by these papers is constant, as it is in the case of government bonds, or whether the self-expansion of the actual capital, which they represent, for instance in industrial enterprises, is subject to interruptions such as interfere with the process of reproduction. In this last eventuality the two causes of depreciation mentioned above are

joined by a third one. As soon as the storm is over, the papers rise once more to their former level, unless they represent failures or swindles. Their depreciation in times of crisis serves as a potent means of centralising money.*94
V.XXIX.14

To the extent that the depreciation or appreciation of such papers is independent of the movements of the value of actual capital represented by them, the wealth of the nation is just as great before as after their depreciation. "On October 23, 1847, the public funds and the canal and railroad stocks were already depreciated by 114,752,225 pounds sterling." So said Morris, the Governor of the Bank of England, in his testimony before the Committee on Commercial Distress, 1847-48. Unless this depreciation implied an actual stopping of production and of traffic on canals and rails, or a suspension of pending enterprises in the beginning stages, or a throwing away of capital in positively worthless ventures, the nation did not grow poorer by one cent through the bursting of this bubble of fictitious capital.
V.XXIX.15

In all countries of capitalist production, there exists an enormous quantity of so-called interest-bearing capital, or moneyed capital, in this form. And accumulation of money-capital signifies to a large extent nothing else but an accumulation of such claims on production,

an accumulation of the market-price, the illusory capital-value, of these claims.
V.XXIX.16

A part of the banking capital is invested in these so-called interest-bearing papers. This is itself a portion of the reserve capital, which does not perform any function in the actual business of banking. The greater portion of these papers consists of bills of exchange, that is, promises to pay made by industrial capitalists or merchants. For the money lender these papers are interest-bearing, in other words, when he buys them, he deducts interest for the time which they still have to run. This is called discounting. It depends on the prevailing rate of interest, how much of a deduction is made from the sum for which the bill calls.
V.XXIX.17

The last part of the capital of a banker consists of his money reserve in gold and notes. The deposits, unless tied up by agreement for a certain time, are always at the disposal of the depositors. They are in a state of continual fluctuation. But while one depositor withdraws his, another brings his in, so that the general average amount of deposits fluctuates little during periods of normal business.
V.XXIX.18

The reserve funds of the banks, in countries with capitalist production, always express on an average the magnitude of the money existing in the shape of a hoard, and a portion of this hoard in its turn consists of papers, mere drafts upon gold, which have no value in themselves. The greater portion of the banking capital is, therefore, purely fictitious and consists of certificates of indebtedness (bills of exchange), government securities (which represent spent capital), and stocks (claims on future yields of production). And it should not be forgotten, that the money-value of capital represented by these papers in the strongboxes of the banker is itself fictitious, even of those which are checks for guaranteed incomes, such as public bonds, or titles on actual capital, like industrial stocks, and that this value is regulated differently than that of the actual capital, which they represent at least in part; or, when they stand for mere claims on the output of production, and not for capital, that the claim on the same amount is expressed in a continually changing fictitious money-capital. In addition to this it must be noted, that this fictitious capital represents largely, not his own capital, but that of the public, which makes deposits with him, either with or without interest.
V.XXIX.19

Deposits are always made in money, in gold or notes, or in checks upon these. With the exception of the reserve fund, which is contracted or expanded in proportion to the requirements of actual circulation, these deposits are in fact always in the hands, on one

side, of the industrial capitalists and merchants, whose bills of exchange are discounted with them, and who receive advances out of them; on the other side, they are in the hands of dealers in securities (exchange brokers), or in the hands of private parties, who have sold their securities, or in the hands of the government (in the case of treasury notes and new loans). The deposits themselves play a double role. On the one hand, as we have just mentioned, they are loaned out as interest-bearing capital and are not found in the cash boxes of the banks, but figure merely in their books as credits of the depositors. On the other hand they figure as such book entries to the extent that the mutual credits of the depositors in the shape of checks on their deposits are balanced against one another and so recorded. In this procedure it is immaterial, whether these deposits are entrusted to the same banker, who can thus balance the various credits against each other, or whether this is done in different banks, who mutually exchange checks and pay only the balances to one another.

V.XXIX.20

With the development of the credit system and of interest-bearing capital all capital seems to double, or even treble, itself by the various modes, in which the same capital, or perhaps the same claim on a debt, appears in different forms in different hands.*95

V.XXIX.21

The greater portion of this "money-capital" is purely fictitious. All the deposits, with the exception of the reserve fund, are merely credits placed with the banker, which however, never exist in deposit. To the extent that they serve in the Giro business, they perform the function of capital for the bankers, after these have loaned them out. They pay to one another their mutual checks upon the nonexisting deposits by balancing their mutual accounts.
V.XXIX.22

Adam Smith says justly with regard to the role played by capital in the loaning of money: "Even in the money business the money is merely a check transferring from one hand to another such capitals as are not used by the owners. These capitals may be almost to any amount larger than the amount of money, which serves as an instrument of their transfer. The same pieces of money serve successively in many different loans, likewise in many different purchases. For instance, A lends to W 1,000 pounds sterling, with which W immediately buys from B 1,000 pounds sterling worth of commodities. Since B himself has no immediate use for this money, he lends the identical pieces of money to X, who immediately buys from C commodities worth 1,000 pounds sterling. In the same way and for the same reason C lends this money to Y, who again buys with it commodities from D. In this way the same pieces of gold or paper may serve in the course of a few days in the promotion of three different loans and three different purchases, each one of which

has a value equal to the full amount of these pieces. What the three moneyed men, A, B and C have transferred to the three borrowers, W, X and Y, is the power to make these purchases. In this power consists both the value and the usefulness of these loans. The capital loaned out by these three moneyed men is equal to the value of the commodities that can be bought with it, and it is three times greater than the value of the money with which these purchases are made. Nevertheless all these loans may be perfectly safe, since the commodities bought with them by the different debtors are employed in such a way, that they will in time bring an equal value in gold or paper money with a profit to boot. And just as the same pieces of money may serve in the promotion of different loans to an amount exceeding their own value three times, or even thirty times, just so may they serve successively as means of return payment." (Book II, chapter IV.)

V.XXIX.23

Since the same piece of money may perform different purchases, according to the velocity of its circulation, it may just as well perform the service of different loans, for the purchases take it from one hand to another, and a loan is but a transfer from one hand to another without the intervention of a purchase. To every seller his money represents the changed form of his commodities. Nowadays, when every value is expressed as the value of capital, it represents in the various loans different capitals, and this is but another way of saying

that it can realise different commodity-values successively. At the same time it serves as a medium of circulation, in order to transfer the material capitals from hand to hand. In the transaction of loaning it does not pass from hand to hand as a medium of circulation. So long as it remains in the hands of the lender, it is in his hands not a medium of circulation, but the existing value of his capital. And in this form he transfers it when loaning it to another. If A had loaned the money to B, and B to C; without the intervention of purchases, then the same money would not represent three capitals, but only one, only one capital-value. How many capitals it actually represents depends on the number of times in which it performs the service of the embodied value of different commodity-capitals.
V.XXIX.24

The same thing which Adam Smith says of loans in general applies also to deposits, since these are merely another name for loans, which the public gives to the bankers. The same pieces of money may serve as instruments for any number of deposits.
V.XXIX.25

"It is undoubtedly true, that the 1,000 pounds sterling, which some one deposits today with A, are again issued tomorrow and become a deposit with B. The day after, paid away by B, they may form a deposit with C, and so forth infinitely. The same 1,000 pounds sterling may, therefore, by a number of transfers, multiply themselves into an

absolutely indeterminable sum of deposits. It is, therefore, possible, that nine-tenths of all the deposits in the United Kingdom have no existence, save for the entries in the books of bankers registering them, who have to square accounts in due time....Such was the case in Scotland, where the currency of money never exceeded 3 million pounds sterling, while the deposits amounted to 27 millions. Unless a general run be made on the banks on account of these deposits, the same 1,000 pounds sterling, traveling backwards, might easily balance an equally indeterminable sum. Since the same 1,000 pounds sterling, with which some one pays today his debt to some dealer, may tomorrow settle this dealer's debt to some merchant, and next day the debt of the merchant to his bank, and so forth without end, the same 1,000 pounds sterling may also wander from hand to hand and from bank to bank, and balance any conceivable amount of deposits." (The Currency Question Reviewed, pp. 162, 163.)
V.XXIX.26

Just as everything is duplicated and triplicated in this credit system and commuted into a mere fiction, so the same applies to the "reserve fund," where one would at last hope to grasp something solid.
V.XXIX.27

Listen once more to Mr. Morris, the Governor of the Bank of England: "The reserves of the private banks are in the hands of the Bank of

England in the form of deposits. The first effects of an export of gold seem to strike only the Bank of England; but it would just as well influence the reserves of the other banks, since it means an export of a part of the reserves, which they have deposited in our bank. In the same way it would influence the reserves of all provincial banks." (Commercial Distress 1847-48.) Ultimately, then, the reserve funds actually dissolve themselves into the reserve fund of the Bank of England.*96

V.XXIX.28

However, this reserve fund again has a double existence. The reserve fund of the banking department of the Bank of England is equal to the excess of the notes, which the Bank is authorised to issue, over the notes in circulation. The legal maximum of the note issue is 14 million pounds sterling (for which no metallic reserve is required; it is the approximate amount owed by the state to the Bank) plus the amount of the precious metals in the Bank. If the supply of precious metals in the Bank amounts to 14 million pounds sterling, the Bank can issue 28 millions in notes, and if 20 millions of these are in circulation, the reserve fund of the banking department is 8 million pounds sterling. These 8 million pounds sterling are, in that case, legally the banking capital at the disposal of the Bank, and at the same time the reserve fund for its deposits. If an exportation of gold takes place now, by which the supply of precious metals in the Bank is reduced by 6 millions‘notes to this amount must be destroyed at

the same time‘then the reserve of the banking department would fall from 8 millions to 2 millions. On the one hand, the Bank would raise its rate of interest considerably; on the other hand, the banks having deposits with it, and the other depositors, would observe a large decrease of the reserve fund covering their own credits in the Bank. In 1857 four of the largest stock banks of London threatened to call in their deposits, and thereby bankrupt the banking department, unless the Bank of England would secure a "government script" suspending the Bank Acts of 1844.*97
V.XXIX.29

In this way the banking department might fail, while a certain number of millions (for instance, 8 millions in 1847) are held in its issue department to secure the convertibility of its circulating notes. But this security is once more illusory.
V.XXIX.30

"The greater portion of the deposits, for which the bankers themselves have no immediate demand, passes into the hands of the bill brokers, who in return give to the banker security for his loan by means of commercial bills, which they have already discounted for people in London or in the provinces. The bill broker is responsible to the banker for the return payment of this money at call; and these transactions are of such an enormous volume, that Mr. Neave, the present Governor of the Bank of England, said in his testimony: We

know that one broker had 5 millions, and we have reason to assume, that another had between 8 and 10 millions; another had 4, another 3½, a third more than 8. I speak of deposits with the brokers." (Report of Committee on Bank Acts, 1857-58, p. 5, section 8.) V.XXIX.31

"The London bill brokers...carried on their enormous business without any reserve in cash; they relied upon the incomes from the successively due bills, or when it came to the worst, upon their power to secure from the Bank of England loans on depositing bills discounted by them."'Two firms of bill brokers in London suspended payments in 1847; both resumed business later. In 1857 they suspended again. The liabilities of one of these firms amounted in 1847 in round figures to 2,683,000 pounds sterling with a capital of 180,000 pounds sterling; its liabilities in 1857 were 5,300,000 pounds sterling, while its capital apparently was not more than one-quarter of what it had been in 1847. The liabilities of the other firm were both times between 3 or 4 millions, while its capital amounted to no more than 45,000 pounds sterling. (Ibidem, p. XXI, section 52.)

Notes for this chapter

93.
"The laborer has a value as capital, which is found by considering the money-value of his annual wages as income from interest...By

capitalising the average daily wages at 4% we find the average value of an agricultural laborer of the male sex to be: German Austria, 1500 Thalers; Prussia, 1500; England, 3750; France, 2000; Interior Russia, 750 Thalers." Von Reden, Vergleichende Kulturstatistik. Berlin, 1848, p. 134.

94.

[Immediately after the February Revolution, when commodities and securities were extremely depreciated and utterly unsaleable, a Swiss merchant in Liverpool, Mr. R. Zwilchenbart‘who told my father about it ‘cashed all his belongings traveled with his cash to Paris and went to Rothschild, offering to do a joint business with him. Rothschild looked at him fixedly, rushed towards him, caught both his shoulders in his hands and asked: "Have you money in your possession?" "Yes, Baron." "Then you are my man." And both of them made a great haul.‘F. E.]

95.

[This duplication and triplication of capital has developed considerably further in recent years, for instance through financial trusts, which already occupy a column of their own in the London bank reports. A society is organised for the purchase of a certain class of interest-bearing papers, say, of foreign government bonds, English municipal or American public bonds, railroad stocks, etc. The capital, for instance, 2 million pounds sterling, is secured by stock subscriptions. The Board of Directors buys the desired values up, or speculates more or less actively in them, and distributes the annual amounts of interest as

dividends among the stockholders, after deducting the expenses. Furthermore, some stock companies have adopted the custom of dividing the ordinary shares into two classes, preferred and deferred. The preferred receive a fixed rate of interest, say 5%, provided that the total profit permits it; if there is anything left after that, the deferred get it. In this way the "solid" investment of capital is more or less separated by preferred shares from the speculation with the deferred shares. Since a few large enterprises have been unwilling to adopt this new mode, the expedient has been resorted to of organising new companies, that invest one or several millions of pounds sterling in shares of the first company and then issue new shares to the amount of the nominal value of the first shares, but make half of them preferred and the other half deferred. In this case the original shares are doubled, by serving as a basis for a new issue of shares.‘F. E.]

96.

To what extent this has since increased is proved by the following official tabulation of the bank reserves of the fifteen largest London banks in November, 1892, taken from the Daily News of December 15, 1892:

NAME OF BANK	LIABILITIES	CASH RESERVE	PERCENTAGES
City…	£9,317,629	£746,551	8.01
Capital and Counties…	11,392,744	1,307,483	11.47
Imperial…	3,987,400	447,157	11.21

Lloyds…	23,800,937	2,966,806	12.46
London & Westminster…	24,671,559	3,818,885	15.50
London & S. Western…	5,570,268	812,353	13.58
London Joint Stock…	12,127,993	1,288,977	10.62
London & Midland…	8,814,499	1,127,280	12.79
London & County…	37,111,035	3,600,374	9.70
National…	11,163,829	1,426,225	12.77
National Provincial…	41,907,384	4,614,780	11.01
Parrs & the Alliance…	12,794,489	1,532,707	11.93
Prescott & Co…	4,041,058	538,517	13.07
Union of London…	15,502,618	2,300,084	14.84
Williams, Deacon & Manchester, etc.	10,452,381	1,317,628	12.60
Total…	£232,655,823	£27,845,807	11.97

Of this sum of almost 28 millions of reserve, at least 25 millions are deposited in the Bank of England, and at most 3 millions of cash in the strongboxes of the 15 banks themselves. But the cash reserve of the banking department of the Bank of England never exceeded 16 millions during that same November of 1892.‘F. E.]

97.

The suspension of the Bank Acts of 1844 permitted to the Bank to issue any quantity of bank notes regardless of any backing by the gold reserve in its possession; to create, in this way, an arbitrary quantity of fictitious money-capital made of paper, and use it for the

purpose of making loans to banks, exchange brokers, and through them to commerce.

Part V,

Volume III Chapter XXX MONEY-CAPITAL AND ACTUAL CAPITAL, I.

V.XXX.1

THE only difficult questions, which we are now approaching in the matter of the credit system, are the following:
V.XXX.2

First: The accumulation of the money-capital strictly so-called. To what extent is it, and is it not, an indication of an actual accumulation of capital, that is, of reproduction on an enlarged scale? The so-called plethora of capital, an expression used only with reference to the interest-bearing capital, is it only a peculiar way of expressing industrial overproduction, or does it constitute a separate phenomenon alongside of it? Does this plethora, or this excessive supply of money-capital, coincide with the existence of stagnating masses of money (bullion, gold coin and bank notes), so that this superfluity of actual money is an expression and phenomenon of that plethora of loan capital?

V.XXX.3

Secondly: To what extent does a stringency of money, that is, a scarcity of loan capital, express a real lack of actual capital (commodity-capital and productive capital)? To what extent does it coincide, on the other hand, with a lack of money as such, a lack of currency?

V.XXX.4

So far as we have hitherto considered the peculiar form of accumulation of money-capital and of money wealth in general, it resolved itself into an accumulation of claims of ownership upon labor. The accumulation of the capital of the national debt has been revealed to mean merely an increase of a class of state creditors, who have the privilege of a first claim upon the revenues.*98

V.XXX.5

In these facts, by which even an accumulation of debts may appear as an accumulation of capital, the perfection of the reversal accomplished by the credit system becomes apparent. These certificates of indebtedness, which are issued in place of the originally loaned and long spent capital, these paper duplicates of destroyed capital, serve for their owners as capital to the extent that they are salable commodities and may, therefore, be reconverted into capital.

V.XXX.6

The titles of ownership upon company business, railroads, mines, etc., are indeed, as we have seen, titles on actual capital. But they do not imply any control of this capital. It cannot be called in. They merely convey legal titles to a portion of the surplus-value to be produced by it. But these titles become likewise paper duplicates of the actual capital, as though a bill of lading were to acquire a value separate from the cargo and simultaneously with it. They become nominal representatives of a capital that does not exist. For the actual capital exists simultaneously and does not change hands by the transfer of those duplicates. They assume the form of interest-bearing capital, because they not only safeguard a certain income, but also make it possible to secure possession of their capital-value in the shape of a return-payment when sold. To the extent that the accumulation of these papers expresses the accumulation of railroads, mines, steamships, etc., it indicates the expansion of the actual process of reproduction, just as the expansion, say, of a tax list indicates the expansion of the taxed objects, for instance, of movable property. But as duplicates serving themselves as commodities for sale and this circulating as capital-values they are illusory, and their value may fall or rise independently of the value of the actual capital, upon which they represent a claim. Their value, that is, their quotation at the Stock Exchange, necessarily has a tendency to rise with a fall in the rate of interest, so far as this fall, independently of the peculiar movements of money-capital, is due merely to the tendency of the

rate of profit to fall; so that this imaginary wealth, which has originally a nominal value for each of its aliquot parts, expands for this reason alone in the course of capitalist production.*99
V.XXX.7

Gain and loss through fluctuations in the price of these titles of ownership, and their centralisation in the hands of railroad kings, etc., naturally becomes more and more a matter of gambling, which takes the place of labor as the original method of acquiring capital and also assumes the place of direct force. This sort of imaginary money wealth does not merely constitute a very considerable part of the money wealth of private people, but also of banking capital, as we have already indicated.
V.XXX.8

In order to settle this point without delay, we mention the idea, that one might also mean by the accumulation of money-capital the accumulation of wealth in the hands of bankers (money lenders by profession), acting as middle men between private money-capitalists on one side and the state, communities, and reproducing borrowers on the other. For the entire vast extension of the credit system, and of all credit in general, is exploited by them as though it were their private capital. These fellows possess capital and incomes always in the form of money or of direct claims upon money. The accumulation of the wealth of this class may proceed in a direction very different

from actual accumulation, but it proves at any rate, that this class pockets a good deal of the real accumulation.
V.XXX.9

Let us reduce the inquiry to narrower limits. Government bonds, like stocks and other securities of all kinds, are spheres of investment for loanable capital, for capital intended to bear interest. They are forms of loaning such capital. But they are not the loan capital itself, which is invested in them. On the other hand, so far as credit plays a direct role in the process of reproduction: what the industrial capitalist or the merchant need when wishing to have a bill discounted or a loan granted is neither stocks nor government bonds. What they need is money. They pawn or sell those securities, when they cannot secure money in any other way. It is the accumulation of this loan capital, with which we have to deal here, and more particularly of the loanable money-capital. We are not here concerned in the loans of houses, machines, or other fixed capital. Nor are we concerned in loans, which industrials and merchants make to one another in the shape of commodities and within the circle of the process of reproduction. We must, indeed, investigate this point still farther before we proceed. But we are concerned exclusively in loans of money, which are made by bankers, as middle men, to industrials and merchants.

V.XXX.10

Let us, then, analyse first the commercial credit, that is, the credit which the capitalists engaged in reproduction give to one another. It forms the basis of the credit system. Its representative is the bill of exchange, a certificate of indebtedness whose payment is due at a certain date, a document of deferred payment. Every one gives credit with one hand and takes it with the other. Let us leave aside, for the present, the banking credit, which constitutes another, quite different, element. To the extent that these bills in their turn circulate among the merchants as means of payment, by endorsement from one to another, without the intervention of discount, it is merely a transfer of a claim of indebtedness from A to B, and does not alter anything in the general connection. It merely places one man into the position of another. And even in this case the liquidation may take place without the intervention of money. The spinner A, for instance, has to pay a bill of exchange to the cotton broker B, and he has to pay a bill to the importer C. Now, if C also exports yarn, which happens often enough, he may buy yarn from A on a bill of exchange, and the spinner A may guarantee the broker B with the broker's own bill paid by C to A, whereby at best a balance may have to be settled. The entire transaction then promotes merely the exchange of cotton and yarn. The exporter represents but the spinner, the cotton broker the cotton planter.

V.XXX.11

In the cycle of this commercial credit we must note two things: V.XXX.12

First: The settlement of these mutual claims of indebtedness depends upon the reflux of capital, that is, of C‘M, which is merely deferred. If the spinner has received a bill of exchange from a cotton goods manufacturer, then this manufacturer can pay, when he has sold the cotton goods, which he has on the market. If the corn speculator has made out a bill of exchange on his dealer, then the dealer can pay the money, if the corn has meanwhile been sold at the expected price. These payments, then, depend upon the smooth run of the reproduction, that is, the process of production and consumption. But since the credits are mutual, the solvency of one depends upon the solvency of another; for in making out his bill of exchange every one may have counted either on the reflux of the capital in his own business or on the reflux of the capital in anothers business, who has to pay him for a bill of exchange drawn in the meantime. Aside from the prospect of returns, the payment is possible only by means of reserve capital, which the writer of the bill has at his command, in order to meet his obligations in case the returns should be delayed. V.XXX.13

Secondly: This credit system does not do away with the necessity of cash payments. For a large portion of the expenses must always be paid in cash, such as wages, taxes etc. Furthermore, capitalist B, who

has received from C a bill of exchange in place of cash payment, may have to pay his own due bill to D before the bill of C becomes due, and so he must have ready cash. A rotation of such completeness as that assumed above in the reproduction from cotton planter to cotton spinner and vice versa will be an exception; as a rule reproduction will be infringed at many points. We have seen in the discussion of the process of reproduction, volume II, Part III, that the producers of constant capital exchange partly constant capital among each other. In such a case the bills of exchange may be balanced against one another more or less. The same may be the case in the ascending line of production, where the cotton broker draws on the cotton spinner, the spinner on the manufacturer of cotton goods, the manufacturer on the exporter, the exporter on the importer (who may be an importer of cotton). But the cycle of these transactions is not completed simultaneously, and the series of claims is not turned around backward in the same way. For instance, the claim of the spinner on the weaver is not settled by the claim of the coal dealer on the machine builder. The spinner never has any counterclaims in his business on the machine manufacturer, because his product, yarn, never enters as an element into the process of reproduction of the machine maker. Such claims must, therefore, be settled by money. V.XXX.14

The limits of this commercial credit, considered by itself, are 1), the wealth of the industrials and merchants, that is, their command of

reserve capital in case of delayed returns; 2) these returns themselves. These may be delayed in time or the prices of commodities may fall in the meantime or the commodities may become momentarily unsalable through a clogging of the markets. The longer the bill runs, the larger must be the reserve capital, and the greater is the possibility of an infringement or retardation of the returns through a fall of prices or an overstocking of markets. And, furthermore, the returns are so much less secure, the more the original transaction was conditioned upon speculation on the rise or fall of the prices of commodities. But it is evident, that with the development of the productive power of labor, and thus of production on a large scale, 1) the markets expand and move a greater distance from the place of production; 2) that credits must be prolonged in consequence; 3) that the speculative element must thus more and more dominate the transactions. Production on a large scale and for distant markets throws the total product into the hands of commerce; but it is impossible, that the capital of a nation should be doubled in such a way, that commerce by itself would be able to buy up the entire national product with its own capital and to sell it again. Credit is, therefore, indispensable here. Credit must grow in volume with the growing volume of value in production, and it must grow in the matter of time with the increasing distance of the markets. A mutual interaction takes place here. The development of the process of production extends the credit, and credit leads to an extension of industrial and commercial operations.

Looking upon this credit separate from banking credit, it is evident that it grows with an increasing volume of industrial capital itself. Loan capital and industrial capital are here identical. The loaned capitals are commodity-capitals, intended either for ultimate individual consumption, or for the replacement of the constant elements of productive capital. What appears as loan capital in this case is always capital existing in some definite phase of the process of reproduction, but passing through sale and purchase from one hand to the other, while its equivalent is not paid to the buyer until later at some stipulated time. For instance, the cotton passes into the hands of the spinner in exchange for a bill of exchange, the yarn into the hands of the manufacturer of cotton goods in exchange for another bill, the cotton goods into the hands of the merchant for another bill, from the hands of the merchant into those of the exporter for another bill, from the hands of the exporter for another bill into those of some merchant in India, who sells the goods and buys indigo instead, etc. During this passage from hand to hand the cotton accomplishes its metamorphosis into cotton goods, and the cotton goods are finally transported to India and exchanged for indigo, which is shipped to Europe and enters there into the reproductive process. The various phases of the process of reproduction are here promoted by the credit, without any payment on the part of the spinner for the cotton, on the part of the manufacturer of cotton goods for the yarn, on the

part of the merchant for the cotton goods, etc. In the first acts of this process the commodity, cotton, goes through its different phases of production, and this transition is promoted by credit. But as soon as the cotton has received its ultimate form as a commodity, the same commodity-capital passes on through the hands of different merchants, who promote its transportation to distant markets, and the last of the merchants finally sells these commodities to the consumer and buys other commodities in their stead, which passes either into consumption or into the process of reproduction. Here, then, we have to distinguish two sections: In the first, credit promotes the actual successive phases in the production of the same article; in the second, it promotes merely the passage of the finished article from the hands of one merchant into those of another, including its transportation, in other words, the act C‘M. Yet the commodity is even here at least in a process of circulation, that is, in a phase of the process of reproduction.
V.XXX.16

It follows, then, that it is never unemployed capital, which is loaned here, but capital, which must change its form in the hands of its owner and which exists in such a form, that it is merely commodity-capital for him, that is, capital which must be reconverted into its original form, and for the present, at least, into money. It is, therefore, the metamorphosis of the commodity, which is here promoted by credit; not merely C‘M, but also M‘C and the actual

process of reproduction. Much credit within the reproductive cycle does not signify (banker's credit excepted) much unemployed capital, which is offered for loans and looking for profitable investment. It means rather much employment for capital in the process of reproduction. Credit promotes here, 1) so far as the industrial capitalists are concerned, the transition of industrial capital from one phase into another, the connection of the related and dove-tailing spheres of production; 2) so far as the merchants are concerned, it promotes the transportation and the passage of commodities from one hand to another until their definite sale for money or their exchange for other commodities.
V.XXX.17

The maximum of credit is here identical with the fullest employment of industrial capital, that is, the utmost exertion of its reproductive power without regard to the limits of consumption. These limits of consumption are extended by the exertions of the process of reproduction itself. On one hand this increases the consumption of revenue on the part of laborers and capitalists, on the other it is identical with an exertion of productive consumption.
V.XXX.18

So long as the process of reproduction is in flow and the reflux assured, this credit lasts and extends, and its extension is based upon the extension of the process of reproduction itself. As soon as a

stoppage takes place, in consequence of delayed returns, overstocked markets, fallen prices, there is a superfluity of industrial capital, but it is in a form, in which it cannot perform its functions. It is a mass of commodity-capital, but it is unsalable. It is a mass of fixed capital, but largely unemployed through the clogging of reproduction. Credit is contracted, 1) because this capital is unemployed, that is, stops in one of its phases of reproduction, not being able to complete its metamorphosis; 2) because confidence in the continuity of the process of reproduction has been shaken; 3) because the demand for this commercial credit decreases. The spinner, who restricts his production and has a mass of unsold yarn in stock, does not need to buy any cotton on credit; the merchant does not need to buy any commodities on credit, because he has more than enough of them.
V.XXX.19

Hence, if this expansion is disturbed, or even the normal exertion of the process of reproduction infringed, credit also becomes scarce; it is more difficult to get commodities on credit. It is particularly the demand for cash payment and the caution observed toward sales on credit which are characteristic of that phase of the industrial cycle, which follows a crash. In the crisis itself, when every one has things to sell, cannot sell them, and yet must sell them, if he would secure means of payment, it is not the mass of the unemployed and investment seeking capital, but rather the mass of capital tied up in his process of reproduction, that is greatest just when the lack of

credit is most felt (and the rate of discount highest in banking credit). The hitherto invested capital is then, indeed, unemployed, because the process of reproduction lags. Factories are closed, raw materials accumulate, finished products swamp the market as commodities. Nothing is more erroneous, therefore, than to blame a scarcity of productive capital for such a condition. It is precisely at such times that there is a superabundance of productive capital, partly so far as the normal, but temporarily contracted, scale of reproduction is concerned, partly with regard to the paralysed consumption. V.XXX.20

Let us suppose that the whole society is composed only of industrial capitalists and wage workers. Let us furthermore make exceptions of fluctuations of prices, which prevent large portions of the total capital from reproducing themselves under average conditions and which, owing to the general interrelations of the entire process of reproduction, such as are developed particularly by credit, must always call forth general stoppages of a transient nature. Let us also make abstraction of the bogus transactions and speculations, which the credit system favors. In that case, a crisis could be explained only by a disproportion of the consumption of the capitalists and the accumulation of their capitals. But as matters stand, the reproduction of the capitals invested in production depends largely upon the consuming power of the non-producing classes; while the consuming power of the laborers is handicapped partly by the laws of wages,

partly by the fact that it can be exerted only so long as the laborers can be employed at a profit for the capitalist class. The last cause of all real crises always remains the poverty and restricted consumption of the masses as compared to the tendency of capitalist production to develop the productive forces in such a way, that only the absolute power of consumption of the entire society would be their limit.
V.XXX.21

A real lack of productive capital, at least among capitalistically developed nations, can be said to exist only in times of general crop failures, either in the principal means of subsistence, or in the principal raw materials of industry.
V.XXX.22

However, in addition to this commercial credit we have the money credit strictly so-called. The loans of the industrials and merchants among one another go hand in hand with loans made to then by the banker and money lender in the form of money. In the discounting of bills of exchange the loan is but nominal. A manufacturer sells his product for a bill of exchange and gets this bill discounted at some bill broker's. In reality this broker loans only the credit of his banker, and this banker loans to the broker the money of his depositors, made up of the industrial capitalists and merchants themselves, of drawers of ground rent and other unproductive classes, but also of laborers (in saving banks). In this way every industrial manufacturer

and merchant gets around the necessity of keeping a large reserve fund and being dependent upon his actual returns. On the other hand the whole process becomes so complicated, partly by the making of bogus checks, partly by operations with commodities for the mere purpose of writing bills of exchange, that the semblance of a solid business and a smooth run of returns may persist even after returns come in only at the expense of swindled money lenders or swindled producers. Thus the business appears almost too sound just on the eve of a crash. The best proof of this is furnished, for instance, by the Reports on Bank Acts of 1857 and 1858, in which all bank directors, merchants, in short, all the summoned experts, with Lord Overstone at their head, congratulated one another on the prosperity and soundness of business‘just one month before the eruption of the crisis of August, 1857. And, queer enough, Tooke in his History of Prices passes through the same illusion as the historian of every crisis. Business is always thoroughly sound and the campaign in full swing, until the collapse suddenly overtakes them.
V.XXX.23

We revert now to the accumulation of money-capital.
V.XXX.24

Not every augmentation of loanable capital indicates a real accumulation of capital or expansion of the process of reproduction. This becomes most evident in the phase of the industrial cycle

following immediately after a crisis, when loanable capital lies fallow in masses. In such moments, in which the process of production is restricted (production in the English industrial districts was reduced by one-third after the crisis of 1847), prices of commodities at their lowest level, the spirit of enterprise paralysed, the rat of interest is low, and it indicates then merely an increase of loanable capital precisely because the industrial capital has been laid lame. It is quite obvious, that less currency is required, when the prices of commodities have fallen, the number of transactions decreased, and the capital invested in wages contracted; that, on the other hand, additional money is required for the function of world money after the debts to foreign countries have been settled either by the exportation of gold or by bankruptcies; that, finally, the volume of the business of discounting bills diminishes with the number and amounts of bills of exchange. Hence the demand for loanable capital, either in the form of means of circulation or of means of payment (the investment of new capital being out of the question for a while), decreases and it becomes relatively abundant. At the same time, the supply of loanable capital increases also positively under such circumstances, as we shall see later.
V.XXX.25

Thus "a reduction of transactions and a great super-abundance of money" prevailed after the crisis of 1847 (Commercial Distress, 1847-48, Evidence No. 1664.) The rate of interest was very low on account

of the "almost complete annihilation of commerce and nearly utter absence of a possibility of investing money" (1. c., p. 45, Testimony of Hodgson, Director of the Royal Bank of Liverpool). What nonsense those gentlemen concocted (and Hodgson is one of the best of them) in order to explain these facts, may be seen from the following phrase: "The stringency (1847) arose from an actual reduction of the money-capital in the country, caused partly by the necessity of paying for the imports from all quarters of the globe in gold, and partly by the conversion of floating capital into fixed." How the conversion of circulating capital into fixed capital should reduce the money-capital of a country is unintelligible. For in the case of railroads, e.g., in which capital was mainly invested at that time, neither gold nor paper are used up for viaducts and rails, and the money for the railroad stocks, to the extent that it had been deposited for subscriptions, performed exactly the same functions as any other money deposited in banks and even increased the loanable money-capital temporarily, as shown above. But to the extent that it had been spent for construction, it circulated in the country as a means of circulation and payment. Only so far as fixed capital cannot be exported, so that with the impossibility of its export the available capital secured by returns from exported articles is eliminated, including the returns in bullion or cash, might the money-capital be affected. But English export articles were likewise piled up in masses on the foreign markets without being salable. It is true, the floating capital of the merchants and manufacturers of Manchester, etc., who had tied up a portion of their

normal business capital in railroad stocks and were therefore dependent upon loan capital for the continuation of their business, had become fixed, and they had to put up with the consequences. But it would have been the same, if the capital belonging to their business, but withdrawn from it, had been invested, say, in mines instead of railroads, mining products like iron, coal, copper being themselves floating capital.
V.XXX.26

The actual reduction of available money-capital through crop failure, corn imports, and gold exports constituted an event that had nothing to do with the railroad swindles.‘"Nearly all commercial firms had begun to starve their business more or less, in order to invest the money in railroads."‘The very extensive loans, which were made to railroads by commercial firms, misled the latter to depend far too much through the discounting of bills upon the banks and to carry on the commercial business in this way" (the same Hodgson, 1. c., p. 67). "In Manchester immense losses were sustained through speculation in railroads" (R. Gardner, previously mentioned in volume I chapter XV, 3, c, p. 449, American edition, and in other places, Evidence No. 4877, 1. c.).
V.XXX.27

One of the principal causes of the crisis of 1847 was the colossal overcrowding of the markets and the unbounded swindle in the East

Indian trade with commodities. But there were also other circumstances, which bankrupted very rich firms in this line: "They had plenty of means, but these could not be made available. Their entire capital was tied up in real estate in Mauritius, or in indigo and sugar factories. After they had assumed obligations to the tune of 5-600,000 pounds sterling, they had no means at hand to pay their bills of exchange, and finally it was found that, in order to pay their bills, they would have to rely entirely upon credit" (Ch. Turner, great East Indian merchant in Liverpool, No. 730, 1. c.).‘See furthermore Gardner, No. 4872, 1. c.: Immediately after the Chinese treaty such great prospects for a tremendous extension of our trade with China were held out to this country, that many large factories were built expressly for this business, for the purpose of manufacturing the cotton goods mainly demanded in the Chinese markets, and these were added to all our already existing factories."‘4874. "How did this business come out?"‘"Most disastrously, so that it defies almost every description; I do not believe, that of all the shipments to China in 1844 and 1845 more than two-thirds of the amount have ever returned; tea being the principal article of return export, and such great prospects having been held out to us, we manufacturers counted without fail on a large reduction of the tea tax."‘And now, naively expressed, comes the characteristic confession of faith of the English manufacturer: "Our trade with a foreign market is not limited by its capacity of consuming our products, it is rather limited here at home by our capacity of consuming the products, which we receive in return

for our industrial products." (The relatively poor countries, with whom England trades, are supposed to be able to pay for and consume any amount of English products, but unfortunately wealthy England cannot digest the products sent in return.)‘4876. "At first I shipped a few commodities out, and these were sold at a loss of about 15% in the full conviction that the price, at which my agents could buy tea, would yield so large a profit through its sale here, that this loss would be made good; but instead of making a profit, I lost sometimes 25% and even as much as 50%."‘4877. "Did the manufacturers export for their own account?"‘"Principally; the merchants, it seems, saw very soon that they did not make anything, and they encouraged the manufacturers to make consignments rather than to participate in them themselves."‘In 1857, on the other hand, the losses and failures fell mainly upon the merchants, since the manufacturers left to them the task of overcrowding the foreign markets "for their own account."

V.XXX.28

An expansion of the money-capital arising from the fact that in consequence of the expansion of the banking business a former private hoard or coin reserve may be converted into loanable capital for a short while, does not indicate a growth of the productive capital any more than the increasing deposits of the London stock banks, as soon as they began to pay interest on deposits. (See the example of Ipswich farther along, where in the course of a few years immediately

preceding 1857 the deposits of the capitalist farmers were quadrupled.) So long as the scale of production remains the same, this expansion leads only to an abundance of the loanable money-capital compared to the productive. Hence the rate of interest is low. V.XXX.29

After the process of reproduction has again reached that state of prosperity, which precedes that of overexertion, the commercial credit once more arrives at a great expansion, which has then indeed for its "sound" basis a flow of easy returns and more extended production. In this state the rate of interest is still low, although it rises above its minimum. This is in fact the only time, of which it may be said, that a low rate of interest, and consequently a relative abundance, of loanable capital, coincide with a real expansion of industrial capital. The facility and regularity of the returns, together with an extensive commercial credit, secures the supply of loan capital in spite of the increased demand for it, and prevents the level of the rate of interest from rising. Moreover, those knights now appear in large numbers, who work without any reserve capital, or even without any capital at all and operate wholly on a credit basis. To this is added the great expansion of the fixed capital of all forms, and the inauguration of vast masses of new enterprises of wide scope. The interest now rises to its average level. It arrives once more at its maximum, as soon as the new crisis comes in, when credit suddenly stops, payments are suspended, the process of reproduction is delayed, and a

superabundance of industrial capital is unemployed, with the above-mentioned exceptions, while there is an almost absolute lack of loan capital.
V.XXX.30

On the whole, then, the movements of loan capital, as expressed in the rate of interest, tend in a direction opposite to that of industrial capital. That phase in which a low rate of interest rising just above its minimum coincides with an "improvement" and a growing confidence after a crisis, and particularly that phase, in which the rate of interest reaches its average level, midway between its minimum and maximum, are the only two periods in which an abundance of loan capital is available simultaneously with a great expansion of industrial capital. But at the beginning of the industrial cycle a low rate of interest coincides with a contraction, and at the end of an industrial cycle a high rate of interest coincides with a superabundance, of industrial capital. The low rate of interest, which indicates an "improvement," shows that commercial credit requires the assistance of banking credit but to a slight degree, because it still stands on its own legs.
V.XXX.31

The industrial cycle is of such a character, that the same cycle must periodically reproduce itself, once that the first impulse has been given.*100
V.XXX.32

In the condition of lassitude production sinks below the level, which it had reached in the preceding cycle, and for which the technical basis has now been laid. During prosperity, the middle period, it continues to develop on this basis. In the period of overproduction and swindle it exerts the productive forces to the utmost, even beyond the capitalistic limits of the process of production.
V.XXX.33

That means of payment are scarce during the period of crisis, goes without saying. The convertibility of bills of exchange has substituted itself for the metamorphosis of commodities themselves, and so much more so at such times, as a portion of the firms operates purely on credit. An ignorant and mistaken legislation, such as that of 1844-45, may intensify a money crisis. But no manner of bank legislation can abolish a crisis.
V.XXX.34

In a system of production, in which the entire connection of the process of reproduction rests upon credit, a crisis must obviously occur through a tremendous rush for means of payment, when credit suddenly ceases and nothing but cash payment goes. At first glance, therefore, the whole crisis seems to be merely a credit crisis and money crisis. And in fact it is but a question of the convertibility of bills of exchange into cash money. But the majority of these bills

represent actual sales and purchases, and it is the extension of these far beyond the demands of society which is at the bottom of the whole crisis. At the same time an enormous quantity of these bills represents mere swindles, and this becomes apparent now, when they burst. There are furthermore unlucky speculations made with the money of other people. Finally there are commodity-capitals, which have either become depreciated or unsalable or returns that can never more be realized. This entire artificial system of forced expansion of the process of reproduction cannot, of course, be remedied by having some bank, like the Bank of England, give to the swindlers the needed capital in the shape of paper notes and buy up all the depreciated commodities at their old nominal values. Moreover, everything appears turned upside down here, since no real prices and their real basis appear in this paper world, but only bullion, metal coin, notes, bills of exchange, securities. Particularly in the centers, in which the whole money business of the country is crowded together, like London, this reversion becomes apparent; the entire process becomes unintelligible. It is not quite so in the industrial centers. V.XXX.35

By the way, we make the following remarks about the superabundance of industrial capital, which shows itself during crises: The commodity-capital is in itself also a money-capital, that is, a definite sum of money expressed in the price of the commodities. As a use-value it is a definite quantity of useful objects, and there is a

superfluity of them at the time of the crisis. But as a money-capital in itself, as a potential money-capital, it is subject to continual expansion and contraction. On the eve of a crisis, and during its sway, commodity-capital in its capacity as a potential money-capital is contracted. It represents less money-capital for its owner and his creditors (likewise as a security for bills of exchange and loans), than it did at the time when it was bought and when the discounts and loans made on it were transacted. If this is the meaning of the contention, that the money-capital of a country is reduced in times of stringency, it is identical with the statement, that the prices of commodities have fallen. Such a collapse of prices merely balances their inflation in preceding periods.
V.XXX.36

The incomes of the unproductive classes and of those, who live on fixed incomes, remain for the greater part stationary during the inflation of prices going hand in hand with an overproduction and overspeculation. Hence their consuming capacity diminishes relatively, and with it their ability to reproduce that portion of the total reproduction, which should enter normally into consumption. Even though their demand should remain nominally the same, it decreases actually.
V.XXX.37

With reference to the imports and exports we remark, that all countries become successively implicated in a crisis, and that then it becomes evident, that all of them, with few exceptions, have exported and imported too much, so that there is a balance of payment against all of them. The trouble, therefore, is not with the balance of payment. For instance, England suffers from an export of gold. It has imported too much. But at the same time all other countries are overcrowded with English goods. They have also imported too much, or too much have been imported into them. (There is, indeed, a difference between that country, which exports on credit, and those countries, which export little or nothing on credit. But in that case, these last countries import on credit; and this is not the case only when commodities are sent to them on consignment.) The crisis may first break out in England, in that country which gives most of the credit and takes least of it, because the balance of payment due, which must be squared immediately, is against it, even though the general balance of trade is for it. This is explained partly by the credit which it has granted, partly by the mass of capitals loaned to foreign countries, so that a large quantity of returns come back to it in the shape of commodities, aside from actual trade returns. (However, the crisis broke out sometimes in America, that country in which most of the trade and capital credit is taken from England.) The crash in England, introduced and accompanied by an export of gold, settles England's balance of payment, partly by a bankruptcy of its importers (about which more is said farther on), partly by throwing off a portion

of its commodity-capital at cut prices to foreign countries, partly by the sale of foreign securities, the purchase of English securities, etc. Now it is the turn of some other country. The balance of payment was momentarily in its favor. But now the time normally allowed between the balance of payment and balance of trade has been reduced by the crisis or entirely abolished. All payments are now supposed to be made immediately. The same thing is now repeated here. England now has a return of gold, the other country an export of gold. What appears in one country as excessive imports, appears in the other as excessive exports, and vice versa. But overimports and overexports have taken place in all countries (we are not alluding now to any crop failures, but to a general crisis); that is, there has been a general overproduction, promoted by credit and the inflation of prices that goes with it.
V.XXX.38

In 1857, the crisis broke out in the United States. An export of gold from England to America followed. But as soon as the inflation in America collapsed, the crisis broke out in England and the gold export went from America to England. The same took place between England and the continent. The balance of payment is in times of general crisis against every nation, at least against every commercially developed nation, but always the one succeeding the other, like firing in squads, as soon as the turn of each comes for making payments. And once the crisis has broken out, say, in England, it compresses the

succession of these terms of payment into a very short period. It then becomes evident, that all these nations have simultaneously overexported (and overproduced) and overimported (and overtraded), that prices were inflated in all of them, and credit overdrawn. And the same collapse follows in all of them. The phenomenon of gold exports then shows itself successively in all of them, and proves by this very generality, 1), that the gold exports are but an evidence of a crisis, not its cause; 2), that the succession, in which the gold exports take place in different countries, indicates only the time when their turn has come to settle their affairs, the time when the crisis seizes them and causes an eruption of its latent forces.
V.XXX.39

It is characteristic for the English economic writers‘and the economic literature worth mentioning since 1830 resolves itself mainly into a literature on currency, credit, crisis‘that they look upon the exports of precious metals in times of crisis, in spite of the alteration of quotations on bills, merely from the standpoint of England, as a purely national phenomenon, and completely close their eyes against the fact, that all other European banks raise their rate of interest, when their own bank raises its in times of crisis, and that, when the cry of distress over the exports of gold is raised in their country today, it is taken up in America tomorrow and in Germany and France the day after.
V.XXX.40

In 1847, "the obligations of England had to be fulfilled" [mostly for corn]. "Unfortunately they were mostly fulfilled by bankruptcies." [The wealthy England got its breath by bankruptcies in its obligations toward the Continent and America.] "But so far as they were met by bankruptcies, they were fulfilled by the export of precious metals." (Report of Committee on Bank Acts, 1857.) In other words so far as a crisis is intensified by bank legislation, this legislation is a means of cheating the corn-exporting countries in periods of famine, robbing them first of their corn and then of the money for the corn. A prohibition of the export of corn in such periods and in such countries, which are themselves suffering more or less from stringencies, is, therefore, a very rational measure to thwart the above plan of the Bank of England for "meeting obligations on corn imports by bankruptcies." It is in that case much better that the corn producers and speculators should lose a portion of their profit for the good of their own country than their capital for the good of England. V.XXX.41

It follows from the above, that the commodity-capital largely loses its capacity of representing potential money-capital during a crisis, and during periods of business depression in general. The same is true of fictitious capital, interest-bearing papers, so far as they circulate in the stock exchanges as money-capital. Their price falls with a rise of interest. It falls furthermore through a general lack of credit, which

compels their owner to throw them in masses on the market, in order to secure money. It falls, finally, in the case of stocks, partly in consequence of the spurious character of the enterprises which they represent, partly in consequence of a decrease of the revenues, for which they constitute drafts. The fictitious capital is enormously reduced in times of crisis, and with it the power of its owners to loan money on it in the market. However, the reduction of the money denomination of these securities in the stock exchange quotations has nothing to do with the actual capital which they represent, but very much indeed with the solvency of their owners.

Notes for this chapter

98.
The public funds are nothing else but an imaginary capital, which represents that portion of the annual revenue, which is set aside to pay the debt. A capital of the same amount has been spent; it is this which serves as a denominator for the loan, but it is not this which is represented by the public funds; for this capital does not exist any longer. However, new wealth must be created by the work of industry; a portion of this wealth is annually set aside in advance for those, who have loaned that wealth, which has been spent; this portion is taken by means of taxes from those who produce it, and is given to the creditors of the state, and, according to the customary proportion between capital and interest in this country, an imaginary

capital is assumed of the same magnitude as that which could give rise to the annual income which these creditors are to receive. Sismondi, Nouveaux Principles, II, p. 230.

99.

A portion of accumulated loanable money-capital is indeed merely an expression of the industrial capital. For instance, when England, in 1857, had invested 80 million pounds sterling in American railroads and other enterprises, this investment was transacted almost throughout by the export of English commodities for which the Americans did not have to make payment in return. The English exporter drew bills of exchange for these commodities on America, the English stock subscribers bought these bills and used them to pay the amount of their stock subscriptions to America.

100.

[I have already stated in another place, that a change has taken place in the character of commercial crises since the last great universal one. The acute form of the periodical process, with its former decennial cycle, seems to have given way to a more chronic, long drawn, alternation between a relatively short and slight business improvement and a relatively long, undecided, depression, both of them differently distributed over the various industrial countries. But perhaps it is merely a matter of a prolongation of the duration of the cycle. In the childhood of world commerce, 1815-1847, it can be shown that a crisis occurred about every fifth year; from 1847-1867 the cycle is decidedly decennial; is it possible, that we are now in the

preparatory stage of a new world crash of unparalleled vehemence? Many things seem to indicate this. Since the last great universal crisis of 1867 many profound changes have taken place. The colossal extension of the means of transportation and communication‘seagoing steamers, railroads, electric telegraphs, the Suez Canal‘have made a real world market a fact. The former monopoly of England in industry has been matched by a number of competing industrial countries; infinitely greater and varied fields have been opened in all parts of the world for the investment of superfluous European capitals, so that it is far more distributed, and local overspeculation may be more easily overcome. By means of these things, the old breeding grounds of crises and opportunities for the growth of crises have been eliminated or strongly reduced. At the same time competition in the internal markets recedes before Kartels and trusts, while it is restricted in the international market by protective tariffs, with which all great industrial countries, England excepted, surround themselves. But these protective tariffs are nothing but preparations for the ultimate general industrial war, which shall decide the supremacy on the world market. Thus every element, which works against a repetition of the old crises, carries the germ of a far more tremendous future crisis in itself.‘F. E.]

Part V,

Volume III Chapter XXXI MONEY-CAPITAL AND ACTUAL CAPITAL. II.

(Continued.)

V.XXXI.1

WE have not yet come to the end of the question, to what extent the accumulation of capital in the form of loanable money-capital coincides with the actual accumulation, the expansion of the process of reproduction.

V.XXXI.2

The conversion of money into loanable money-capital is a far simpler matter than the transformation of money into productive capital. But two things should be distinguished here.

1). The mere conversion of money into money-capital;

2.) The conversion of capital or revenue into money, which is turned into loan capital.

V.XXXI.3

It is only the last named point, which can imply a positive accumulation of loan capital connected with an actual accumulation of industrial capital.

1. Conversion of Money into Loan Capital.

V.XXXI.4

We have already seen, that an accumulation of loan capital to the point of oversaturation may take place, which is connected with productive accumulation only to the extent that it stands in the opposite proportion to it. This is the case in two phases of the industrial cycle, namely first during the time, when the industrial capital in both its forms of productive and commodity-capital is contracted, that is, at the beginning of the cycle after a crisis; and secondly at the time, when the improvement begins without, however, demanding as yet very much bank credit for commercial capital. In the first case the money-capital, which was formerly employed in production and commerce, appears as unemployed loan capital; in the second case it appears employed to an increasing degree, but at a very low rate of interest, because then the industrial and commercial capitalist prescribes the conditions for the money capitalist. The superabundance of loan capital expresses in the first case a stagnation of industrial capital, and in the second a relative independence of commercial credit from banking credit, based on the fluidity of the returns, a short term of credit, and a preponderance of operations with one's own capital. The speculators, who count on the credit capital of other people, have not yet appeared upon the field; the

people, who work with their own capital, are still far removed from an approximation to operations based purely on credit. In the first named phase the superfluity of loan capital is the direct opposite of the expression of actual accumulation. In the second phase it coincides with a renewed expansion of the process of reproduction, accompanies it, but is not its cause. The superabundance of loan capital is already decreasing, is only a relative one compared to the demand. In both cases the expansion of the actual process of accumulation is promoted by it, since the low interest, which coincides in the first case with low prices, in the second with slowly rising prices, increases that portion of the profit, which is transformed into profits of enterprise. This takes place still more when interest rises to its average level during the height of the period of prosperity, when it has grown, but not in the same proportion as profit.
V.XXXI.5

We have seen, on the other hand, that an accumulation of loan capital may take place without any actual accumulation, by mere technical means, such as an expansion and concentration of the banking system, a saving in the currency reserve, or in the reserve fund of private means of payment, which are then always converted into loan capital for a short time. Although this loan capital, which is also called floating capital for this reason, retains the form of loan capital only for short periods (and discount is supposed to be given for short periods only), it flows continually back and forth. If one

withdraws it, another brings it along. The mass of loanable money-capital grows thus quite independently of the actual accumulation (we speak here quite generally of short-lived loans on bills and deposits, not of loans for a number of years).
V.XXXI.6

B. C. 1857. Question 501. "What do you mean by floating capital?"‘ Answer of Mr. Weguelin, Governor of the Bank of England: "It is capital available for money loans on short time."...(502) Notes of the Bank of England...of the provincial banks, and the amount of money existing in the country.‘Question: "It does not seem, from the testimony submitted to this Committee, provided you mean by floating capital the active circulation" [of the notes of the Bank of England] "as though there were any very considerable fluctuation in this active circulation?" [But there is a great difference, whether this active circulation is loaned by the money lender or advanced by the reproductive capitalist himself.] Weguelin's answer: "I include in the floating capital the reserves of the bankers, in which there is considerable fluctuation."‘That is to say, there is considerable fluctuation in that portion of the deposits, which the bankers have not loaned out again, but which figures as their reserve, and for the greater part also as the reserve of the Bank of England, where they are deposited. Finally the same gentleman says that floating capital is bullion, that is, bullion and hard cash (503).‘It is truly wonderful, what a different meaning and different form all economic categories receive

in this credit jargon of the money market. Floating capital is there the term for circulating capital, which is, of course, quite another thing, money is capital, bullion is capital, bank notes are currency, capital is a commodity, debts are commodities, and fixed capital is money invested in papers that are salable with difficulty!
V.XXXI.7

"The stock banks of London...have increased their deposits from 8,850,774 pounds sterling in 1847 to 43,100,724 pounds sterling in 1857....The evidences and testimonies placed before this Committee permit the conclusion, that a great part of this immense amount is derived from sources, which were formerly not available for this purpose; and that the custom of opening an account with the banker and depositing money with him has extended to numerous classes, that formerly did not invest their capital(!) in this manner. Mr. Rodwell, President of the Association of Provincial Private Banks" [distinguished from stock banks] "and delegated by it to testify before this Committee, states that in the region of Ipswich this custom has quadrupled of late among the capitalist farmers and small business men of that district; that nearly all farmers, even those paying only 50 pounds sterling of rent annually, now have deposits in banks. The mass of these deposits, of course, finds its way to employment in business, and gravitates particularly toward London, the center of commercial activity, where they are first employed in discounting bills and in making other loans to the customers of London Bankers. But a

large portion of them, which the bankers themselves cannot use immediately, pass into the hands of bill brokers, who give to the bankers commercial bills in their stead, which they have already discounted once before for people in London and in the provinces." (B. C. 1858, p. 8.)
V.XXXI.8

In giving loans to the bill broker on bills which this broker has discounted once, the banker practically discounts them again; but in reality very many of these bills have already been rediscounted by the bill broker, and he rediscounts new bills with the very same money, with which the banker rediscounts the bills of the bill broker. What this leads to is shown by the following passage: "Extensive fictitious credits have been created by accommodation bills and blank credits, and this was very much facilitated by the procedure of the provincial stock banks, that discounted such bills and then had them rediscounted by bill brokers in the London market, and at that solely on the strength of the bank's credit, without regard to the further quality of the bills." (L. c.)
V.XXXI.9

Concerning this rediscounting and the help which these purely technical increase of loanable capital lends to credit swindlers, the following extract from the "Economist" is instructive: "During many years capital" [namely loanable money-capital] "accumulated in some

districts of the country more rapidly then it could be employed, while in others the means of its investment grew faster than the capital itself. While the bankers in the agricultural districts thus found no opportunity to invest their deposits profitably and safely in their own region, those in the industrial districts and the commercial cities had more demand for capital than they could supply. The effect of these different conditions in the various districts has led in recent years to the rise and startlingly rapid extension of a new class of firms engaged in the distribution of capital, who, although generally called bill brokers, are in reality bankers on the very largest scale. The business of these firms is to assume, for definitely agreed periods and at definitely fixed interest, the surplus-capital of the banks in districts in which it could not be employed, just like the temporarily idle funds of stock companies and great commercial firms, and to loan this money at a higher rate of interest to the banks in districts where capital is more in demand; as a rule by rediscounting the bills of their customers....In this way Lombard Street became the great center, in which the transfer of unemployed capital takes place from one part of the country, where it cannot be usefully employed, to another where it is in demand; and this applies to the different parts of the country as well as to similarly situated individuals. Originally these transactions were almost exclusively limited to borrowing and lending on collateral acceptable to banks. But in proportion as the capital of the country increased rapidly and was more and more economised by the erection of banks, the funds at the disposal of discounting firms became so

large that they undertook to make advances, first on dock warrants (storage bills on commodities in docks) and then also on bills of lading representing products that had not even arrived, although sometimes, if not regularly, bills of exchange had already been drawn against them at the produce brokers. This practice soon changed the entire character of the English business. The facilities thus offered by Lombard Street gave to the produce brokers in Mincing Lane a greatly enforced position; these gave in turn the entire advantage to the importing merchants; these last took so much advantage of it that, whereas 25 years previous a taking of credit on his bills of lading or even his dock warrants would have ruined the credit of a merchant, this practice became so general, that it may be considered as the rule, and no longer, as 25 years ago, as a rare exception. Yea, this system has been extended so far, that large sums have been taken up in Lombard Street on bills of exchange drawn against the still growing crops of distant colonies. The result of such accommodations was, that the import merchants expanded their foreign transactions and tied up their floating capital, with which they had hitherto carried on their business, in the most execrable of investments, colonial estates, over which they could exert little or no control. Thus we see the direct concatenation of credits. The capital of the country, which is collected in our agricultural districts, is laid down in small amounts as deposits in country banks, and centralised for investment in Lombard Street. But it has been utilised, first, for the extension of business in our mining and industrial districts by rediscounting bills on banks

there; furthermore also for granting greater accommodations to importers of foreign products by loans on warrants and bills of lading, whereby the 'legitimate' merchants' capital of firms in foreign and colonial business was released and made available for the most abominable kinds of investment in transmarine estates." (Economist, 1847, p. 1334.)
V.XXXI.10

This is the "beautiful concatenation of credits." The rural depositor imagines to deposit only with his banker, and imagines furthermore that, when his banker lends to others, it is done to private persons whom he knows. He has not the slightest suspicion, that this banker places his deposit at the disposal of some London bill broker, over whose operations neither of them have the slightest control.
V.XXXI.11

How great public enterprises, such as railroads, may momentarily increase the loan capital, owing to the circumstance that the deposited amounts always remain at the disposal of the bankers for a certain time until they are really used, we have already seen.

V.XXXI.12

By the way, the mass of the loan capital is quite different from the quantity of the currency. By the quantity of the currency we mean

here the sum of all bank notes and all hard cash existing and circulating in a country, including the bullion of precious metals. One portion of this quantity forms the reserves of the banks, an ever changing magnitude.
V.XXXI.13

"On November 12, 1857" [the date of the suspension of the Bank Acts of 1844], "the total reserve of the Bank of England, including all branch banks, amounted to only 580,751 pounds sterling; the sum of the deposits amounted at the same time to 22,500,000 pounds sterling, of which nearly 6,500,000 pounds sterling belonged to London bankers." (B. C., 1858, p. LVII.)
V.XXXI.14

The variations of the rate of interest (aside from those occurring in long periods, or from the difference of the rate of interest in different countries; the first named are conditioned in variations of the general rate of profit, the last named on differences in the rates of profit and on the development of credit) depend upon the supply of loan capital (all other circumstances, state of confidence, etc., being equal,) that is, of the capital loaned in the form of money, hard cash, and notes; this is distinguished from industrial capital, which in the shape of commodities is loaned by means of commercial credit among the agents of reproduction themselves.
V.XXXI.15

However, the mass of this loanable capital is different from and independent of the mass of the circulating money.
V.XXXI.16

If 20 pounds sterling were loaned five times per day, a money-capital of 100 pounds sterling would be loaned, and this would imply at the same time that these 20 pounds sterling would besides have to serve at least four times as means of purchase or payment; for if this were to take place without the intervention of purchase and payment, so that this sum would not represent at least four times the converted form of capital (commodities including labor-power), it would not be a capital of 100 pounds sterling, but only five claims of 20 pounds sterling each.
V.XXXI.17

In countries with a developed credit we may assume, that all money-capital available for loaning exists in the form of deposits with banks and money lenders. This holds good at least for the business in a general way. Moreover, in times of good business, before speculation proper breaks loose, when credit is easy and confidence growing, the greater portion of the functions of circulation is settled by a simple transfer of credit, without the intervention of metal or paper money.
V.XXXI.18

The mere possibility of large amounts of deposits with a relatively small quantity of currency, depends, solely:

1) Upon the number of purchases and sales, which the same piece of money performs;

2) The number of its return wanderings, in which it goes back to the bankers as a deposit, so that its repeated function as a means of payment and purchase is promoted through its renewed conversion into a deposit. For instance, a small dealer deposits weekly with his banker 100 pounds sterling in money; the banker pays with this a portion of a deposit to a manufacturer; this man in his turn pays it over to some laborers; these pay the small dealer with it, who deposits it again in the bank. The 100 pounds sterling deposited by this dealer have, therefore, served, first, in paying to a manufacturer a portion of his deposit; secondly, in paying some laborers; thirdly, in paying the dealer himself, fourthly, in depositing another portion of the money-capital of the same small dealer; for at the end of twenty weeks, provided that he does not have to draw any of his money out of the bank, he would have deposited 2,000 pounds sterling in the bank by means of the same 100 pounds sterling.

V.XXXI.19

To what extent this money-capital is unemployed, is shown only in the inward and outward movements of the banking reserves. Therefore,

Mr. Weguelin, Governor of the Bank of England in 1857, concludes that the gold of the Bank of England is the "only" reserve capital.‘ 1258. "In my opinion the rate of discount is actually determined by the amount of unemployed capital existing in the country. The amount of unemployed capital is represented by the reserve of the Bank of England, which is in fact a gold reserve. Hence, when gold is exported, the amount of unemployed capital in the country is diminished and the value of the remaining parts is thereby increased."‘1364. "The gold reserve of the Bank of England is in fact the central reserve, or the cash fund, on the basis of which the entire business of the country is carried on....It is this fund, or this reservoir, upon which the effect of the foreign quotations on 'Change always fall." (Report on Bank Acts, 1857.)

V.XXXI.20

For the accumulation of the actual, this is, productive and commodity-capital, the statistics of exports and imports furnish a measure. These show always that during the decennial cycles of the period of development of British industry from 1815 to 1870 the maximum of the last time of prosperity always reappears before the crisis, whereupon it rises to a new and far higher maximum.
V.XXXI.21

The actual or declared value of the exported products of Great Britain and Ireland in the prosperous year 1824 was 40,396,300 pounds sterling. The amount of the exports falls thereupon with the crisis of 1825 below this sum and fluctuates between 35 and 39 millions annually. With the return of prosperity in 1834 the amount of exports rises above the former maximum to 41,649,191 pounds sterling, and reaches in 1836 the new maximum of 53,368,571 pounds sterling. In 1837 it falls again to 42 millions, so that the new minimum stands higher than the old maximum, and fluctuates thereupon between 50 and 53 millions. The return of prosperity lifts the amount of exports in 1844 to 58,500,000 pounds sterling, a rise far above the maximum of 1836. In 1845 it reaches 60,111,082 pounds sterling; then it falls to something over 57 millions in 1846, reaches in 1847 almost 59 millions, in 1848 about 53 millions, rises in 1849 to 63,500,000, in 1853 to nearly 99 millions, in 1854 to 97 millions, in 1855 to 94,500,000, in 1856 almost 116 millions, and reaches a maximum of 122 millions in 1857. It falls in 1858 to 116 millions, rises already in 1859 to 130 millions, in 1860 to nearly 136 millions, in 1861 only 125 millions (the new minimum is here again higher than the former maximum), in 1863 to 146,500,000.
V.XXXI.22

Of course, the same thing might be demonstrated in the case of imports, which show the extension of the market; but we are here concerned only in the scale of production. [Of course, this holds good

of England only for the time of its actual industrial monopoly; but it applies quite generally to the whole complex of countries with modern great industries, so long as the world market is still expanding.‘F. E.]

Conversion of Capital or Revenue into Money that is Transformed into Loan Capital.

V.XXXI.23

We will consider the accumulation of money-capital here in so far as it is not an expression, either of a relaxation in the flow of credit, or of greater economy, whether it be an economy in the actually circulating medium or in the reserve capital of the agents engaged in reproduction.
V.XXXI.24

Aside from these two cases, an accumulation of money-capital may arise through extraordinary imports of gold, such as those of 1852 and 1853 resulting from the output of the new Australian and Californian mines. This gold was deposited in the Bank of England. The depositors took notes instead, which they did not at once redeposit in banks. By this means the circulating medium was unusually increased. (Testimony of Weguelin, B. C. 1857, No. 1329.)
V.XXXI.25

The Bank strove to utilise these deposits by lowering its discount to 2%. The mass of gold accumulated in the Bank rose during six months of 1853 to 22 or 23 millions.
V.XXXI.26

The accumulation of all capitalists lending money naturally takes place always in the form of direct money, whereas we have seen that the actual accumulation of industrial capitalists is accomplished, as a rule, by an increase of the elements of reproductive capital itself. Hence the development of the credit system and the enormous concentration of the money-lending business into the hands of great banks must by itself alone accelerate the accumulation of loanable capital, as a form distinguished from actual accumulation. This rapid development of loan capital is, therefore, a result of actual accumulation, for it is a consequence of the development of the process of reproduction, and the profit that forms the source of accumulation for these money-capitalists is but a deduction from the surplus-value, which the reproductive capitalists filch from production (and it is at the same time a portion of the interest on the savings of others). The loan capital accumulates at the expense of both the industrial and commercial capitalists. We have seen that in the unfavorable phases of the industrial cycle the rate of interest may rise so high, that it temporarily devours the whole profit in particularly handicapped lines of business. At the same time the prices of the public securities and other securities also fall. It is at such times that the money-capitalists

buy up these depreciated papers in masses, which soon regain their former level in later phases or rise above it. Then they are sold again and a portion of the money-capital of the public appropriated through them. That portion, which is not sold yields a higher interest, because it was bought below price. But the money-capitalists convert all profits made by them and reconverted into capital first into loanable money-capital. An accumulation of such money-capital, as distinguished from the actual accumulation that is its mother, takes place, obviously, even if we consider only the money-capitalists, bankers, etc., by themselves, that is, an accumulation of this particular class of capitalists. And it must grow with every expansion of the credit system such as goes with the expansion of the process of reproduction.
V.XXXI.27

If the rate of interest is low, then the depreciation of the money-capital falls principally upon the depositors, not upon the banks. Before the development of stock banks three-fourths of all deposits rested in the English banks without returning any interest. If interest is now paid on them, it amounts to at least 1% less than the current rate of interest.
V.XXXI.28

As for the money accumulation of the other classes of capitalists, we leave aside that portion of it, which is invested in interest-bearing

papers and accumulates in this form. We consider merely that portion, which is thrown upon the market as loanable money-capital.
V.XXXI.29

In the first place, we have here that portion of the profit, which is not spent as revenue, but intended for accumulation, yet at the same time not immediately of any use for the industrial capitalists in their own business. This profit exists originally in the form of commodity-capital, a part of whose value it constitutes, and is realised with it in money. Now, if it is not reconverted into the production elements of commodity-capital (we leave out of consideration for the present the merchant, whom we shall have to discuss separately), then it must remain for a while in the form of money. This mass increases with the mass of capital itself, even when the rate of profit declines. That portion, which is to be spent as revenue, is gradually consumed, but forms in the meantime a loan capital of the banker in the form of a deposit. Thus even the growth of that portion of profit, which is spent as revenue, expresses itself in a gradual and continually repeated accumulation of loan capital. The same is true of that other portion, which is intended for accumulation. With the development of the credit system, then, and its organisation, even the increase of revenue, that is, of the consumption of the industrial and commercial capitalists, expresses itself as an accumulation of loan capital. And this holds good of all revenues which are consumed gradually, in other words, of ground rent, wages in their higher form, incomes of

unproductive classes, etc. All of them assume for a certain time the form of a money revenue and are, therefore, convertible into deposits and thus into loan capital. All revenue, whether it be intended for consumption or accumulation, so long as it exists in some form of money, is a part of the value of commodity-capital transformed into money, and is, for this reason, an expression and result of the actual accumulation, but not the productive capital itself. When a spinner has exchanged his yarn for cotton, while he has exchanged that portion, which forms his revenue, for money, then the real existence of his industrial capital is the yarn, which has passed into the hands of the weaver or, perhaps, of some private consumer, and this yarn is the existence of both the capital-value and surplus-value contained in it, whether it be intended for reproduction or consumption. The magnitude of the surplus-value transformed into money depends upon the magnitude of the surplus-value contained in the yarn. But as soon as it has been transformed into money, this money is but the existence of the value of this surplus-value. And as such it becomes an element of loan capital. To this end nothing more is required than that it should be transformed into a deposit, if it had not been loaned out by its owner. But in order to be reconverted into productive capital, it must have reached a certain minimum limit.

Part V,

Volume III Chapter XXXII MONEY-CAPITAL AND ACTUAL CAPITAL. III.

(Concluded.)

V.XXXII.1

THE mass of the money thus reconverted into capital is a result of the voluminous process of reproduction, but considered by itself, as loanable money-capital, it is not itself a mass of reproductive capital.
V.XXXII.2

The most important point of our presentation so far is, that the expansion of that part of the revenue which is intended for consumption (leaving out of consideration the laborer, because his revenue is equal to the variable capital) represents itself in the first instance as an accumulation of money-capital. The accumulation of money-capital, therefore, presents a factor, which is essentially different from the actual accumulation of industrial capital; for that portion of the annual product, which is intended for consumption, does not become capital in any way. One portion of it replaces capital, namely the constant capital of the producers of means of consumption, but to the extent that it is actually converted into capital, it exists in the natural form of the revenue of the producers of this constant capital. The same money, which represents the revenue and serves merely for the promotion of consumption, is regularly transformed into loanable money-capital, for a certain time.

So far as this money represents wages, it is at the same time the money-form of the variable capital; and so far as it replaces the constant capital of the producers of means of consumption, it is the money-form temporarily assumed by their constant capital and serves for the purchase of the natural elements of the constant capital to be replaced by them. Neither in the one nor in the other form does it express in itself any accumulation, although its mass increases with the volume of the process of reproduction. But it performs temporarily the function of loanable money, of money-capital. In this respect the accumulation of money-capital must reflect a greater accumulation of capital than is actually existing, owing to the fact that the extension of individual consumption, being promoted by money, appears as an accumulation of money-capital, whereby it furnishes the money-form for the actual accumulation of money opening new investments of capital.
V.XXXII.3

The accumulation of money, then, expresses in part nothing else but the fact that all money, into which the industrial capital is transformed in the course of its cycle, assumes the form, not of money advanced by the reproductive capitalists, but of money borrowed by them; so that indeed the advance of money necessary in the process of reproduction appears as an advance of borrowed money. On the basis of commercial credit one capitalist loans indeed to another the money required for the process of reproduction. But this assumes now the

form of a transaction, in which the banker, who receives the money as a loan from one portion of the reproductive capitalists, lends it to another portion of these reproductive capitalists, so that the banker appears in the role of a dispenser of blessings; at the same time the disposition of this capital drifts wholly into the hands of the banker in his capacity as a middleman.
V.XXXII.4

A few special forms of accumulation of money-capital still remain to be mentioned. Capital is releases, for instance, by a fall in the price of the elements of production, raw materials, etc. If the industrial capitalist cannot expand his process of reproduction immediately, then a portion of his money-capital is expelled from the cycle as superfluous and converted into loanable money-capital. In the second place, capital in the form of money is released especially by the merchant, whenever any interruption of his business takes place. If the merchant has disposed of a series of transactions and cannot begin a new series on account of such interruptions until later, then his realised money represents for him but a hoard, superfluous capital. But at the same time it represents directly an accumulation of loanable money-capital. In the first case, the accumulation of money-capital expresses a repetition of the process of reproduction under more favorable conditions, an actual release of a portion of formerly tied up capital, in other words, an opportunity for expanding the process of reproduction with the same amount of money. But in the

other case it expresses merely an interruption in the flow of transactions. However, in both cases it is converted into loanable money-capital, represents its accumulation, influences equally the money-market and the rate of interest, although it expresses a promotion of the accumulation in the actual process in one case and its obstruction in the other. Finally an accumulation of money-capital is brought about by that section of people, who have made their little pile and have withdrawn from reproduction. In proportion as more profits are made in the course of the industrial cycle, their number increases. In their case the accumulation of loanable money-capital expresses on the one hand an actual accumulation (considering its relative volume), and on the other hand the extent of the transformation of industrial capitalists into mere money-capitalists. V.XXXII.5

As for the other portion of profit, which is not intended to be consumed as revenue, it is converted into money-capital only when it is not immediately able to find a place for investment in the expansion of the productive sphere in which it has been made. This may be due to two causes. Either the sphere of production may be saturated with capital. Or it may be because accumulation must first have reached a certain volume, before it can serve as capital, according to the proportions of the investment of new capital required in this particular sphere. Hence it is converted for a while into loanable money-capital and serves in the expansion of production in

other spheres. Assuming all other circumstances to remain unaltered, the mass of profits required for reconversion into capital will depend on the mass of profits made and thus on the extension of the process of reproduction itself. But if this new accumulation meets with difficulties in its employment, through a lack of spheres for investment, due to the overcrowding of the lines of production and an oversupply of loan capital, then such a plethora of loanable money-capital proves merely that capitalist production has its limits. The subsequent swindle with credit proves, that no positive obstacle stands in the way of the employment of this superfluous capital. The obstacle is merely one immanent in its laws of self-expansion, namely the limits in which capital can expand itself as such. A plethora of money-capital does not necessarily indicate an overproduction, nor even a lack of spheres of investment for capital.
V.XXXII.6

The accumulation of loan-capital consists simply in the fact that money is precipitated as loanable money. This process is very different from an actual transformation into capital; it is merely the accumulation of money in a form, in which it may be invested as capital. But this accumulation may, as we have shown, indicate facts, which are greatly different from actual accumulation. So long as actual accumulation is continually expanding, this extended accumulation of money-capital may be partly its result, partly the result of circumstances, which accompany it but are quite different from it,

partly also the result of impediments to actual accumulation. Since accumulation of loan-capital is swelled by such circumstances, which are independent of actual accumulation but nevertheless accompany it, there must be a plethora of money-capital in definite phases of the cycle for this reason alone, if for no other, and this plethora must develop with the organisation of credit. And simultaneously with it must also develop the necessity of driving the process of production beyond its capitalistic limits, by overproduction, excessive commerce, extreme credit. And this must take place in forms that call forth a reaction.
V.XXXII.7

So far as accumulation of money-capital from ground rent, wages, etc., is concerned, it is superfluous to discuss that here. Only one thing must be mentioned, namely that the business of actual saving and abstinence (by people forming hoards), to the extent that it furnishes elements of accumulation, is left in the division of labor, which comes with the progress of capitalist production, to those who receive the smallest share of such elements, and who frequently enough lose even their savings, as do the laborers when banks fail. On the one hand the capital of the industrial capitalist is not "saved" by himself, but he has command of the savings of others in proportion to the magnitude of his capital; on the other hand the money-capitalist makes of the savings of others his own capital, and of the credit, which the reproductive capitalists give to one another,

and which the public gives to them, a source for enriching himself. The last illusion of the capitalist system, to the effect that capital is the fruit of ones own labor and saving, is thereby destroyed. Not only does profit consist of the appropriation of other people's labor, but the capital, with which this labor of others is set in motion and exploited, consists of other people's property, which the money-capitalist places at the disposal of the industrial capitalist, at the same time exploiting the latter in his turn.
V.XXXII.8

A few remarks remain to be made about credit-capital.
V.XXXII.9

How often the same piece of money may figure as a loan capital, depends, as we have previously indicated.

1) On the question, how often it realises the value of commodities by sale or purchase, thereby transferring capital, and furthermore on the question, how often it realises revenue. How often it gets into other hands as a realised value, either of capital or of revenue, depends, therefore, obviously, upon the volume and mass of the actual transactions;

2) On the economy of payments and on the development and organisation of credit-system;

3) On the concatenation and velocity of action of the credits, so that a deposit set down at one point starts off immediately as a loan at another.

V.XXXII.10

Even assuming that the form, in which loan capital exists, is merely that of actual money, of gold or silver, of that commodity whose substance serves as a measure of value, a large portion of this money-capital is necessarily purely fictitious, that is a title to some value just as the tokens of value. So far as money functions in the cycle of capital, it forms indeed for the moment a money-capital; it is rather exchanged for the elements of productive capital, or paid out as a medium of circulation in the realisation of revenue, and cannot, therefore, convert itself into loan capital for its owner. But so far as it is converted into loan capital, and the same money repeatedly represents loan capital, it is evident that it exists only at one point in the form of metallic money; at all other points it exists only in the form of title on capital. The accumulation of these titles, according to our analysis, arises from the actual accumulation, that is, from the transformation of the values of commodity-capital, etc., into money; but nevertheless the accumulation of these titles as such differs from the actual accumulation, from which it arises, and from the future accumulation, from which it arises, and from the future accumulation

(the new process of production), which is promoted by the loaning of this money.
V.XXXII.11

In the first instance loan capital exists always in the form of money,*101 later as a title on money, since the money, in which it originally existed, is now held in the hand of the borrower as actual money. For the lender it has been transformed into title on money, a title of ownership. The same mass of actual money may, therefore, represent very different masses of money-capital. Mere money, whether it represent realised capital or realised revenue, becomes a loan capital through the simple act of loaning, by its conversion into a deposit, if we look upon the general form under a developed credit system. The deposit is a money-capital for the depositor. But in the hands of the banker it may be only a potential money-capital, which lies fallow in his strongbox instead of that of its owner.*102
V.XXXII.12

With the growth of material wealth grows the class of money-capitalists; on one side the number and the wealth of retiring capitalists living on their incomes increases; on the other hand the development of the credit system is promoted, and with it the number of bankers, money lenders, financiers, etc.
V.XXXII.13

With the development of the available money-capital grows also the mass of interest-bearing papers, government bonds, stocks, etc., as we have shown previously. At the same time grows also the demand for available money-capital, since the jobbers, who speculate in these securities, play a prominent role on the money-market. If all the purchases and sales of these papers were only an expression of actual investments of capital, it would be correct to say, that they can have no influence on the demand for loan capital, since, when A sells his paper, he draws exactly as much money as B puts into the paper. But even if the paper itself exists, though not the capital (at least not as money-capital) originally represented by it, it always creates to that extent a demand for such money-capital. But at any rate it is then money-capital, which was previously at the disposal of B and is not at the command of A.
V.XXXII.14

B.A. 1857. No. 4886. "Is it in your opinion a correct statement of the causes determining the rate of discount, when I say that it is regulated by the quantity of capital existing on the market, which is available for the discounting of commercial bills, as distinguished from other kinds of securities?" [Chapman]: "No, I hold that the rate of interest is affected by all convertible securities of current character; it would be wrong to limit the question simply to the discounting of bills; for when there is a strong demand for money on consols [deposited] or even treasury notes, as was strongly the case of late,

and at a much higher than the commercial rate of interest, it would be absurd to say that our commercial world is not influenced by it; it is very essentially touched by it."‘4890. "When good and current securities, such as bankers accept, are on the market, and the owners take up money on them, it has surely an effect on the commercial world; for instance, I cannot expect that a man should give me his money at 5% on a commercial bill, when he can lend this money out at the same time at 6% on consols, etc.; it affects us in the same way; nobody can expect of me that I should discount his bills at 5½ %, when I can lend my money out at 6%."‘4892. "Of people, who buy securities as fixed investments of capital for 2,000, or 5,000, or 10,000 pounds sterling, we do not speak as though they had any essential influence upon the money-market. When you ask me for the rate of interest on [a deposit of] consols, I speak of people, who transact business to the amount of hundreds of thousands, of so-called jobbers, who underwrite large amounts of public loans, or buy them on the market, and who must hold these papers until they can get rid of them at a profit; these people must take up money for this purpose."

V.XXXII.15

With the development of the credit system great concentrated money-markets are created, such as London, which are at the same time the main seats of trade in such securities. The bankers place the money-capital of the public in masses at the disposal of this unsavory crowd

of dealers, and thus this breed of gamblers multiplies. "Money is generally cheaper at the stock exchange than anywhere else," says the incumbent of the Governor's chair of the Bank of England in 1848 before the secret Committee of Lords, C. D. 1848, printed, 1857, No. 219.)
V.XXXII.16

In the discussion of the interest-bearing capital we have already shown, that the average interest for a long period of years, other circumstances remaining the same, is determined by the average rate of profit; this does not mean profits of enterprise, which are themselves nothing but profit minus interest.
V.XXXII.17

It has also been mentioned, and will be further analysed in another place, that the variations of commercial interest, that is, of interest calculated by the money lenders for discounts and loans within the commercial world, meet in the course of the industrial cycle a phase, in which the rate of interest exceeds its minimum and reaches its average level, which it exceeds later, and that this movement is a result of a rise in profits.
V.XXXII.18

However, two things must be noted here.
V.XXXII.19

First: When the rate of interest stays up for a long time (we are speaking here of the rate of interest of a certain country, for instance England, where the average rate of interest is a fact for a certain long time, and presents itself also in the interest paid on loans for a long period, called private interest), it is an evident proof of the fact, that the rate of profit is high during this period, but it does not prove necessarily, that the rate of profits of enterprise is high. This last distinction is more or less removed for capitalists, who operate mainly with their own capital; they realise the high rate of profit, since they pay their own interest. The possibility of a high rate of interest of long duration is present when the rate of profit is high; this does not refer, however, to the phase of the actual stringency. But it is possible, that this high rate of profit may leave but a low rate of profit of enterprise, after the high rate of interest has been deducted. The rate of profit of enterprise may shrink, while the high rate of profit continues. This is possible, because the enterprises must be continued after they have once been started. During this phase operations are carried on to a large extent with a pure credit capital (capital of other people); and the high rate of profit may be speculative, prospective, in some places. A high rate of interest may be paid with a high rate of profit, while profit of enterprise is declining. It may be paid (and this is done in part during times of speculation), not out of the profit, but out of the borrowed capital of another, and this may continue for a long time.

V.XXXII.20

Secondly: The expression, that the demand for money-capital, and with it the rate of interest, grows, while the rate of profit is high, is not the same as that which is to the effect that the demand for industrial capital grows and with it the rate of interest is high.
V.XXXII.21

In times of crisis the demand for loan capital, and with it the rate of interest, reach their maximum; the rate of profit, and with it the demand for industrial capital, are almost gone. In such times every one borrows only for the purpose of paying, in order to settle previously contracted obligations. On the other hand, in times of renewed activity after a crisis, loan capital is demanded for the purpose of buying, and for the purpose of transforming money-capital into productive and commodity-capital. And then it is in demand either by the industrial capitalist or the merchant. The industrial capitalist invests it in means of production and in labor-power.
V.XXXII.22

The rising demand for labor-power can never be by itself a cause for a rising rate of interest, so far as this is determined by the rate of profit. A higher wage is never a cause of higher profits, although it may be one of the consequences of higher profits, in some particular phases of the industrial cycle.

The demand for labor-power may increase, because the exploitation of labor takes place under especially favorable circumstances, but the rising demand for labor-power, and thus for variable capital, does not in itself increase the profit; it rather lowers it to that extent. But the demand for variable capital may nevertheless increase with the demand for labor-power, and to that extent the demand for money-capital, and this may raise the rate of interest. The market price of labor-power then rises above its average, more than the average number of laborers are employed, and the rate of interest rises at the same time, because the demand for money-capital rises under such circumstances. The rising demand for labor-power makes this commodity dearer like any other, increases its price, but not the profit, which rests mainly upon the relative cheapness of just this commodity. But it raises under the given assumptions also the rate of interest, because it increases the demand for money-capital. If the money-capitalist, instead of loaning the money, should transform himself into an industrial capitalist, then the fact that he has to pay more for labor-power would not increase his profit, but would rather decrease it in proportion. The constellation of conditions may be such, that his profit may rise nevertheless, but it will be in spite of the fact that he pays more for labor-power, and not because of it. This last circumstance, so far as it increases the demand for money-capital, is on the other hand sufficient to raise the rate of interest. If wages

should rise for some reasons while the constellation is unfavorable, then the rise in wages would lower the rate of profit, but raise the rate of interest in proportion as it would increase the demand for money-capital.
V.XXXII.24

Leaving the question of labor aside, the thing called "demand for capital" by Overstone consists only in a demand for commodities. The demand for commodities raises their price, either because it may rise above the average, or because the supply of commodities may fall below the average. If the industrial capitalist or the merchant must now pay 150 pounds sterling for the same mass of commodities for which he used to pay 100 pounds sterling, he would have to borrow 150 pounds sterling whereas he had to borrow but 100 pounds sterling formerly, and if the rate of interest were 5%, he would now have to pay 7½ pounds sterling of interest as against 5 pounds sterling of former times. The mass of the interest to be paid by him would rise because he now has to borrow more capital.
V.XXXII.25

The whole attempt of Mr. Overstone consists in pretending that the interests of loan capital and of industrial capital are identical whereas his Bank Acts are precisely calculated to exploit the difference of these interests for the benefit of money-capital.
V.XXXII.26

It is possible, that the demand for commodities, in case their supply has fallen below average, does not absorb any more money-capital than formerly. The same sum, or perhaps a smaller one, has to be paid for their total value, but a smaller quantity of use-values is received for the same sum. In this case the demand for loanable money-capital will remain the same, and the rate of interest will not rise, although the demand for commodities would have risen as compared to their supply, and consequently the price of commodities would have become higher. The rate of interest cannot be touched, unless the total demand for loan capital increases, and this is not the case under the above assumption.
V.XXXII.27

The supply of an article may also fall below average, as it does in case of crop failures of corn, cotton, etc., and the demand for loan capital may increase, because the speculation in these commodities calculates on a rise in their prices and the first means of making them rise is to curtail for a while a portion of their supply on the market. But in order to pay for the bought commodities without selling them, money is secured by means of the commercial bill system. In this case the demand for loan capital increases, and the rate of interest may rise in consequence of this attempt to prevent by artificial means the supply of this commodity to the market. The

higher rate of interest expresses in that case an artificial reduction of the supply of commodity-capital.
V.XXXII.28

On the other hand the demand for an article may rise, because its supply has increased and the article stands below its average price.
V.XXXII.29

In this case the demand for loan-capital may remain the same or may even fall, because more commodities can be had for the same sum of money. A speculative formation of a supply might also occur, either for the purpose of taking advantage of a favorable moment for the ends of production, or in expectation of a future rise in prices. In this case the demand for loan capital might grow, and the rise in the rate of interest would then be an expression of an investment of capital in the formation of an extra supply of elements of productive capital. We consider here merely that demand for loan capital, which is influenced by the demand and supply of commodity-capital. We have explained on a previous occasion, that the changing condition of the process of reproduction in the phases of the industrial cycle has its effect upon the supply of loan capital. The trivial statement to the effect that the market rate of interest is determined by the supply and demand of (loan) capital, is shrewdly mixed up by Overstone with his own assumption, according to which loan capital is identical with capital in

general, and in this way he tries to transform the usurer into the only capitalist and his capital into the only capital.
V.XXXII.30

In times of stringency the demand after loan capital is a demand for means of payment and nothing else; it is by no means a demand for money as a means of payment. The rate of interest may rise very high at the same time, regardless of whether real capital, that is, productive and commodity-capital, exists in abundance or is scarce. The demand for means of payment is a mere demand for convertibility into money, to the extent that the merchants and producers can offer good security; it is a demand for money-capital in so far as it is not this other, in other words, so far as an advance of means of payment gives them not merely the form of money, but also the equivalent which they lack for making payment in whatever form. This is the point, where both sides of the current theory are right and wrong in their opinion about crisis. Those who say that there is merely a lack of means of payment, have either the owners of bona fide securities alone in view, or they are fools who believe that it is the duty and power of banks to transform all bankrupt swindlers into solvent and solid capitalists by means of pieces of paper. Those who say that there is merely a lack of capital, are either harping on words, since in such times there is a mass of inconvertible capital in consequence of over-imports and overproduction, or they are referring only to such knights of credit as are now placed in

conditions, where they cannot any longer get other people's capital for their operations, and who now demand that the bank should not only help them to pay for the lost capital, but also enable them to continue their swindling.
V.XXXII.31

It is a basic principle of capitalist production, that the money, as an independent form of value, must stand opposed to commodities, or that exchange-value must assume an independent form in money, and this is possible only by making of one definite commodity the material, whose value measures all other commodities, so that it thus becomes the general commodity, the commodity par excellence as distinguished from all other commodities. This must become evident in two respects, particularly among capitalistically developed nations, who substitute other things for large masses of money, partly through credit operations, partly through credit money. In times of stringency, when credit shrinks or ceases entirely, money suddenly becomes the only means of payment and the only true existence of absolute value as opposed to all other commodities. Hence a universal depreciation of commodities, difficulty or even impossibility of transforming them into money, that is, into their own purely phantastic form. In the second place, credit money itself is but money in so far as it absolutely takes the place of actual money to the amount of its nominal value. With the export of gold its own convertibility becomes problematical, that is, its identity with actual money. Hence forcible measures, raising of the

rate of interest, etc., for the purpose of safeguarding the conditions of this convertibility. This may be carried more or less to excess by mistaken legislation, resting upon false theories of money and enforced upon the nation by the interests of the money dealers, of Overstone and his like. The basis, however, is given with the basis of the mode of production itself. A depreciation of credit money (not to mention its imaginary depreciation) would unsettle all existing relations. The value of commodities is therefore sacrificed, for the purpose of safeguarding the phantastic and independent existence of this value in money. As money-value it is secured only so long as money itself is secure. For the sake of a few millions of money many millions of commodities must therefore be sacrificed. This is inevitable under capitalist production and constitutes one of its beauties. In former modes of production this does not occur, because on the narrow basis, upon which they move, neither credit nor credit money can develop to any extent. So long as the social character of labor appears as the money-existence of commodities, and thus as a thing outside of actual production, money crises are inevitable, either independently of crises or intensifying them. On the other hand it is obvious that, so long as the credit of a bank is not shaken, it will alleviate the panic in such cases by increasing the credit money, and intensify it by contracting this money. All history of modern industry shows that metal would indeed be required only for the balancing of international commerce, whenever its equilibrium is disturbed momentarily, if only national production were properly organised. That the inland market does not

need any metal even now is shown by the suspension of cash payments of the so-called national banks, that resort to this expedient whenever extreme cases require it as the sole relief.
V.XXXII.32

In the case of two individuals it would be ridiculous to say that both of them have a balance of payment against one another in their mutual transactions. If they are mutually creditors and debtors of one another, it is evident that to the extent that their claims do not balance, one must be the creditor and the other the debtor for the remainder. But in the case of nations this is by no means so. And that it is not so is acknowledged by all economists through the statement, that the balance of payment may be for or against a nation, even if its balance of trade must ultimately be settled. The balance of payment differs from the balance of trade in so far as payment is a balance of trade which must be settled at a definite period. What crises accomplish is the crowding of the difference between the balance of payment and the balance of trade into a short time; and the definite conditions, which develop in the nation suffering from a crisis and facing the term when payment becomes due, carry with them such a contraction of the time of settlement. These conditions are, first the shipping away of precious metals; then the throwing away of consigned commodities; the exportation of commodities for the purpose of getting rid of them or of securing loans on them in the home market; the rising of the rate of interest,

the calling in of credits, the falling of securities, the selling out of foreign securities, the attraction of foreign capital for investment in these depreciated securities, and finally bankruptcy, which settles a mass of obligations. While this is going on, metal is often sent for some time into the country, where a crisis has broken out, because bills of exchange on it are unsafe and payment is best made in metal. This is further explained by the fact that in the case of a country like Asia all capitalist nations are generally direct or indirect debtors of it at the same time. As soon as these different circumstances exert their full effect upon the other involved nation, it likewise begins its export of gold and silver on account of the expiration of the date of payment, and the same phenomena are repeated.
V.XXXII.33

In commercial credit the interest, being the credit price as distinguished from the cash price, enters only in so far into the price of commodities as the bills of exchange have a longer running time than the ordinary. Otherwise it does not. And this is explained by the fact that every one takes credit with one hand and gives it with the other. [This does not agree with my experience. F. E.] But so far as discount in this form enters into consideration here, it is not regulated by this commercial credit, but by the money-market.
V.XXXII.34

If the demand and supply of money-capital, which determine the rate of interest, were identical with the demand and supply of actual capital, as Overstone maintains, then the interest would be simultaneously high or low according to different commodities, or different phases of the same commodity (raw material, partly finished product, finished product). In 1844 the rate of interest of the Bank of England fluctuated between 4% from January to September to 2½ and 3% from November to the end of the year. In 1845 it was 2½, 2¾, 3% from January to October, and between 3 and 5% during the remaining months. The average price of fair Orleans cotton was 6¼ d. in 1844 and 4 7/8 d. in 1845. On March 3, 1844, the cotton supply in Liverpool was 627,042 bales, and on March 3, 1845, it was 773,800 bales. To judge by the low price of cotton, the rate of interest should have been low in 1845, and it was indeed for the greater part of this time. But to judge by the yarn the rate of interest should have been high, for the prices were relatively and the profit absolutely high. From cotton at 4 d. per pound a yarn could be spun in 1845 with a spinning cost of 4 d. (No. 40 good second mule twist), or a total cost of 8 d. to the spinner, which he could sell in September and October 1845 at 10½ or 11½ d. per pound. (See the testimony of Wylie farther on.)
V.XXXII.35

This whole question may be decided by the following considerations:
V.XXXII.36

A supply and demand of loan capital would be identical with a demand and supply of capital in general (although this last phrase is absurd; for the industrial or commercial capitalist a commodity is a form of his capital, yet he never asks for capital as such, but only for this particular commodity as such, buys and sells it as a commodity, corn or cotton, regardless of the role which it has to play in the rotation of his capital), if there were no money lenders, and if in their stead the lending capitalists were in possession of machinery, raw materials, etc., which they would rent or loan just as houses are now, to the industrial capitalists, who are themselves part owners of these things. Under such circumstances the supply of loan capital would be identical with the supply of elements of production for the industrial capitalist, and of commodities for the merchant. But it is evident, that then the division of profit between the lender and borrower would depend primarily upon the proportion, in which this capital is loaned and in which it is the property of the one who employs it.
V.XXXII.37

According to Mr. Weguelin (B. A. 1857) the rate of interest is determined by "the mass of unemployed capital" (252); it is "but an index of the mass of unemployed capital seeking investment" (271); later this unemployed capital becomes a "floating capital" (485) and by this he means " notes of the Bank of England and other means of circulation in the country, for instance the notes of provincial banks

and the coins existing in the country....I include in the floating capital also the reserves of the banks" (502,503), and later he includes also gold bullion (503). Thus the same Mr. Weguelin says that the Bank of England has a great influence upon the rate of interest in times, when "we" (the Bank of England) actually have the greater portion of the unemployed capital in our hands (1198), while according to the above testimony of Mr. Overstone the Bank of England "is no place for capital." Mr. Weguelin further says: "In my opinion the rate of discount is regulated by the quantity of the unemployed capital in the country. The quantity of unemployed capital is represented by the reserve. of the Bank of England, which is in fact a metal reserve. Hence when the metal hoard is reduced, it reduces the quantity of unemployed capital in the country and consequently raises the value of the remaining quantity." (1258.) J. Stuart Mill says, 1102: "The Bank is compelled, in order to keep its banking department solvent, to do its utmost to fill the reserve of this department, hence as soon as it finds that a drain begins, it must secure its reserve and either reduce its discounts or sell securities."'The reserve, so far as only the banking department is concerned, is a reserve for the deposits only. According to the Overstones the banking department is supposed to act only as a banker, without regard to any "automatic" issue of notes. But in times of actual stringency this institution, independently of the reserve of the banking department, which consists only of notes, keeps a sharp eye on the metal reserve, and must do so, if it would not fail. For in proportion as the metal reserve dwindles,

disappears also the reserve of bank notes, and no one should know this better than Mr. Overstone, who has so wisely arranged this by his Bank Acts of 1844.

Notes for this chapter

101.
B. A. 1857. Testimony of Twells, banker, 4516. "As a banker, do you deal in capital or in money?"‘"We deal in money."‘4517. "How are the deposits paid into your bank?"‘"In money."‘4518. "How are they paid out?"‘"In money."‘"Might it be said, then, that they are anything else but money?"‘"No."

Overstone (see chapter XXVI) tangles himself up continually between "capital" and "money." Value of money signifies with him also interest, in so far as it is determined by the mass of money; value of capital is supposed to be interest, so far as it is determined by the demand for productive capital and the profit made by it. He says, 4140. "The use of the term capital is very dangerous."‘4148. "The gold exports from England are a reduction of the quantity of money in the country, and this must naturally cause an increased demand in the money-market in general" [but not in the capital-market, according to this]‘4112. "In proportion as money leaves the country its quantity in the country is diminished. This diminution of the quantity remaining in the country creates an increased value of this

money" [this signifies originally in his theory an increase in the value of money as money through a contraction of the currency, as compared to the values of commodities; in other words, an increase in the value of money is the same as a fall in the value of commodities. But since meanwhile even he has been convinced beyond peradventure, that the mass of the circulating money does not determine prices, it is now the contraction of money as a medium of circulation, which is supposed to raise its value as interest bearing capital, and thus the rate of interest]. "And this increased value of the still remaining money checks the export and continues, until it has brought back as much money as is necessary to restore the equilibrium."‘A continuation of Overstone's contradictions follows later.
102.
At this point the confusion starts in to the effect that both of these things are "money," namely the deposit as a claim to a payment from the banker, and the deposited money in the hands of the banker. Banker Twells, before the Committee on Bank Acts of 1857, takes the following example: "I start in business with 10,000 pounds sterling. With 5000 pounds sterling I buy commodities and place them in my stock. The other 5000 pounds sterling I deposit with some banker, in order to draw upon them as I need them. But I still consider the total as my capital, although 5000 pounds sterling exist in the form of a deposit or money." (4528)‘This gives rise to the following nice debate.‘4531. "Well, you have given your 5000 pounds sterling in bank notes to somebody else"‘"Yes, Sir."‘4532. "Then he has 5000

pounds sterling in deposits?"‘"Yes, Sir."‘4533. "And you have 5000 pounds sterling in deposits?"‘"Quite right."‘4534. "He has 5000 pounds sterling in money, and you have 5000 pounds sterling in money?"‘"Yes, Sir."‘4535. "But it is ultimately nothing but money?"‘"No, Sir." This confusion is due, partly to the circumstance, that A, who has deposited 5000 pounds sterling, can draw on them and dispose of them as though he still had them. To that extent they serve him as a potential capital. In all cases, in which he draws on them, he destroys his deposit to that extent. If he draws out real money, and his own money has already been loaned to some one else, he is not paid with his own money, but with that of some other depositor. If he pays a debt to B with a check on his banker, and if banker of A has also a check on the banker of B, so that the two bankers merely exchange checks, then the money deposited by A has performed the function of money twice; first, in the hands of him who received the money deposited by A; secondly, in the hands of A himself. In this second function it is a balancing of claims of indebtedness (the claim of A on his banker, and the claim of this banker on the banker of B) without the intervention of money. Here the deposit acts twice as money, namely once as real money, and then as a claim on money. Mere titles to money may take the place of money only by a balancing of claims of indebtedness.

Part V,

Volume III Chapter XXXIII THE CURRENCY UNDER THE CREDIT SYSTEM.

V.XXXIII.1

"THE great regulator of the velocity of circulation is credit. This explains, why a sharp stringency in the money-market generally coincides with a full circulation." (The Currency Question Reviewed, p. 65.) This is to be taken in a double sense. On one hand all methods, which save currency, are based upon credit. On the other hand, take, for instance, a 500 pound note. A gives it today to B in payment for a bill of exchange; B deposits it on the same day in his bank; his banker discounts with it on the same day a bill of exchange for C; C pays it to his bank, the bank gives it to the bill broker as a loan, etc. The velocity with which this note circulates here in purchases and sales is promoted by the velocity with which it always returns to some one in the form of a deposit and passes over to some one else in the form of a loan. The mere economising of the currency appears most highly developed in the Clearing House, the mere exchange of due bills of exchange, and the function of money preferentially as a means of payment for balancing mere remainders. But the existence of these bills rests itself upon credit, which the industrials and merchants mutually give to each other: If this credit declines, so does the number of bills, particularly of long time ones, and consequently also the effectiveness of this method of balancing accounts. And this economy, which consists in the elimination of money from the

transactions, and which rests entirely upon the function of money as a means of payment, which in its turn rests again upon credit, can be only of two kinds (aside from the more or less developed technique in the concentration of these payments): Mutual claims of indebtedness, represented by bills of exchange or checks, are balanced either by the same banker, who merely transcribes the claim from the account of one to that of another, or by different bankers squaring accounts against each other.*103
V.XXXIII.2

The concentration of 8 to 10 million bills of exchange in the hands of one bill broker, such as the firm of Overend, Gurney & Co., was one of the principal means of expanding the scale of these balances locally. By this economy the effectiveness of the currency is increased, so far as a smaller quantity of it is required for the mere balancing of accounts. On the other hand the velocity of the money circulating as currency (by which it is likewise economised) depends entirely upon the flow of purchases and sales, or also on the concatenation of payments, so far as they are made successively in money. But credit promotes and increases the velocity of currency. A single piece of money, for instance, may perform only five rotations, and remains for a certain time in each hand, as a mere medium of circulation, without the intervention of credit, when A, its original owner, buys from B, then B from C, then C from D, then D from E, then E from F, that is, when its transition from one hand to another is due only to actual

sales and purchases. But when B deposits the money received from A in his bank and his banker issues it in the discounting of bills to C, and he buys from D, and D deposits it in his bank, and his banker lends it to E, who buys from F, then even its velocity as a mere medium of circulation (means of purchase) is promoted by several credit operations: the depositing of this money by B in his bank, the discounting of his banker for C, the depositing of D in his bank, and the discounting of this banker for E; four credit operations. Without these credit operations the same piece of money would not have performed five purchases successively in a given time. The fact that it changed hands without the promotion of actual sales and purchases, by deposits and discounts, has here accelerated its change of hands in the series of actual transactions.

V.XXXIII.3

We have seen previously, that one and the same bank note may be a deposit in different banks. It may also form different deposits in the same bank. The banker discounts with the note, which A has deposited, the bill of B, and B pays it over to C, who deposits the same note in the same bank that issued it.

V.XXXIII.4

We have already demonstrated in the discussion of the simple circulation of commodities (Volume I, Chapter III, 2), that the mass of

the actually circulating money, assuming the velocity of currency and the economy of payments to be given, is determined by the prices of commodities and the mass of transactions. The same law rules the circulation of notes.

V.XXXIII.5

In the following table, the annual averages of the notes of the Bank of England are set down, so far as they were in the hands of the public, namely the amounts of 5 and 10 pound notes, those of 20 to 100 pound notes, and those of the larger notes between 200 and 1000 pounds sterling; together with the percentages of the total circulation supplied by each one of these classes. The amounts stand for thousands, the last three figures being left out.

YEAR	5-10 P. NOTES	%	20-100 P. NOTES	%	200-1000 P. NOTES	%	TOTALS
1844	9,263	45.7	5,735	28.3	5,253	26.0	20,241
1845	9,698	46.9	6,082	29.3	4,942	28.6	20,723
1846	9,918	48.9	5,771	28.5	4,590	22.6	20,286
1847	9,591	50.1	5,498	28.7	4,066	21.2	19,155

1848	8,732	48.3	5,046	27.9	4,307	23.8
	18,085					
1849	8,692	47.2	5,234	28.5	4,777	24.3
	18,403					
1850	9,164	47.2	5,587	28.8	4,646	24.0
	19,398					
1851	9,362	48.8	5,554	28.5	4,557	23.4
	19,473					
1852	9,839	45.0	6,161	28.2	5,856	26.8
	21,856					
1853	10,699	47.3	6,393	28.2	5,541	24.5
	22,653					
1854	10,363	51.0	5,910	28.5	4,234	20.5
	20,709					
1855	10,628	53.6	5,706	28.9	3,459	17.5
	19,793					
1856	10,680	54.4	5,645	28.7	3,324	16.9
	19,648					
1857	10,659	54.7	5,567	28.6	3,241	16.7
	19,467					

V.XXXIII.6

(B. A. 1858, p. I, II.) The total mass of circulating bank notes has, therefore, positively decreased from 1844 to 1857, although the commercial business had more than doubled, as indicated by exports

and imports. The smaller bank notes of 5 and 10 pounds sterling increased, as the table shows, from 9,263,000 in 1844 to 10,659,000 pounds sterling in 1857. And this took place simultaneously with the very heavy increase in the gold circulation of that time. On the other hand, there was a decrease of the notes of higher denominations (200 to 1000 pounds sterling) from 5,856,000 in 1852 to 3,241,000 pounds sterling in 1857, a decrease of more than 2½ millions. This is explained as follows: "On June 8, 1854, the private bankers of London permitted the stock banks to take part in the erection of the Clearing House, and soon after that the final clearing was established in the Bank of England. The daily balances were settled by transcribing them on the accounts, which the different banks keep in the Bank of England. By the introduction of this system the notes of high denomination, which the banks formerly used for balancing their mutual accounts, have become superfluous." (B. A. 1858, p. V.)
V.XXXIII.7

To what a small minimum the use of money in wholesale trade has been reduced, may be seen in the table published in Volume I, Chapter III, page 157, footnote 1, which was furnished to the Committee on Bank Acts by Morrison Dillon & Co., one of the largest of those London firms, from whom a small dealer can buy his entire stock of commodities of all kinds.
V.XXXIII.8

According to the testimony of W. Newmarch before the B. A. 1857, No. 1741, still other circumstances contributed to the economy in currency: The penny postage, the railroads, the telegraphs, in short, the improved means of communication; so that England can now carry on a five to six times larger business with about the same circulation of bank notes. It is also declared to be due to a marked degree to the withdrawal of the notes of a higher denomination than 10 pounds sterling from the circulation. This appears to him as a natural explanation for the fact that in Scotland and Ireland, where also one pound notes circulate, the circulation of notes has risen by about 31% (1747). The total circulation of bank notes in the United Kingdom, including the one pound notes, is said to be 39 millions (1749). The gold circulation 70 millions (1750). In Scotland the circulation of notes was 3,120,000 pounds sterling in 1834; 3,020,000 pounds sterling in 1844; and 4,050,000 pounds sterling in 1854 (1752).
V.XXXIII.9

From these facts alone it is evident, that it lies by no means with the banks issuing notes to increase the number of circulating notes, so long as these notes are at all times exchangeable for money. [Inconvertible bank notes are not taken into consideration at all here; inconvertible bank notes can become universal means of circulation only under conditions, in which they are actually backed up by national credit, as is the case of Russia at present. In that case they fall under the laws of the inconvertible national paper money, which

have been developed already in Volume I, Chapter III, 2, c, Coin and Symbols of Value.‘F. E.]
V.XXXIII.10

The quantity of circulating notes is regulated by the requirements of commerce, and every superfluous note wanders back immediately to the issuing party. Since in England only the notes of the Bank of England circulate universally as the legal means of payment, we may neglect at this point the slight and merely local circulation of the provincial banks.
V.XXXIII.11

In B. A. 1858 Mr. Neave, Governor of the Bank of England testifies: No. 947. Question: "Whatever measures you may take, the amount of notes, you say, remains the same, that is, about 20 million pounds sterling?"‘Answer: "In ordinary times the wants of the public seem to require about 20 million pounds sterling."‘At certain periodically recurring times each year this is increased by one or one and half millions. If the public needs more, they can always, as I said, get them from the Bank of England."‘948. "You said that during the panic the public did not want to allow you to reduce the amount of the notes; will you state your reasons?"‘"In times of panic the public, it seems to me, has full power to secure notes; and of course, so long as the Bank has any obligation, the public can take notes from the Bank on this obligation."‘949. "It seems, then, that at all times about

20 million notes of the Bank of England are required?"‘"20 million notes in the hands of the public; it changes. It is 18½, 19, 20 millions, etc.; but on an average you may say 19-20 millions."
V.XXXIII.12

Testimony of Thomas Tooke before the Committee of Lords on Commercial Distress (C. D. 1848-57) No. 3094: "The Bank has no power to expand the amount of its notes in the hands of the public at its own arbitrary will; it has the power to reduce the amount of notes in the hands of the public, but only by means of a very forcible operation."
V.XXXIII.13

J. C. Wright, for 30 years a banker in Nottingham, having explained at length the impossibility, that a provincial bank should be able to set more notes into circulation than the public needs, says of the notes of the Bank of England: (C. D. 1848-57) No. 2844: "I know of no limit" (for the issue of notes) "for the Bank of England, but every surplus of the circulation will pass over into the deposits and thus assume another form."
V.XXXIII.14

The same holds good for Scotland, where almost nothing but paper circulates, because there as well as in Ireland one pound notes are also in vogue and "the Scotch hate gold." Kennedy, Director of a

Scotch bank, declares that banks cannot even contract their circulation of notes, and is "of opinion that, so long as inland transactions require notes or gold in order to be carried on, the bankers must furnish as much currency as these transactions need‘either on demand of their depositors or otherwise....The Scotch banks can contract their business, but they cannot exert any control over their issue of notes." (Ibidem, No. 3446-48.) In like manner Anderson, Director of the Union Bank of Scotland, answers question No. 3678, asked ibidem: "Does the system of mutually exchanging notes" [among the Scotch banks] "prevent an overissue of notes on the part of the individual bank?"‘"Yes; but we have a more effective means than the exchange of notes" [which has really nothing to do with this, but does indeed guarantee the ability of the notes of each bank to circulate throughout all of Scotland], "and that is the general custom in Scotland of keeping a bank account; every one who has any money at all has also an account in some bank and turns in daily all the money which he does not need immediately for himself, so that at the end of every business day all the money is in the banks, except what each carries in his pockets."
V.XXXIII.15

The same applies to Ireland, as shown by the testimony of the Governor of the Bank of Ireland, MacDonnell, and the Director of the Provincial Bank of England, Murray, before the same Committee.
V.XXXIII.16

The circulation of notes is just as independent of the state of the gold reserve in the cellars of the bank, which guarantees the convertibility of these notes, as it is of the will of the Bank of England. "On September 18, 1846, the circulation of the notes of the Bank of England was 20,900,000 pounds sterling and its metal reserve was 16,273,000 pounds sterling; on April 5, 1847, the circulation was 20,815,000 pounds sterling and the metal reserve was 10,246,000 pounds sterling. Hence no contraction of the currency took place in spite of the export of 6 million pounds sterling of precious metal." (J. G. Kinnear, The Crisis and the Currency, London, 1847, p. 5.) Of course, this applies only to the conditions which prevail in England at present, and even there only so far as legislation does not decide differently concerning the relation between the issue of notes and the metal reserve.
V.XXXIII.17

Hence only the requirements of business itself exert an influence on the quantity of circulating money‘notes and gold. In the first instance the periodical fluctuations, which repeat themselves every year, should be noted here, regardless of the general condition of business, so that for 20 years "in a certain month the circulation is high, in another low, and in a third definite month a middle point occurs." (Newmarch, B. A. 1857, No. 1650.)
V.XXXIII.18

For instance, in August of every year a few millions, generally in gold, pass from the Bank of England into inland circulation, in order to pay the expenses of the harvest; since the principal payments to be made here are wages, bank notes are less serviceable in England for this purpose. By the close of the year this money has returned to the Bank. In Scotland there are almost nothing but one pound notes instead of Sovereigns; in this case, then, it is the circulation of notes which is expanded during the aforesaid term, and at another, that is, twice a year, in May and November, by about 3 or 4 millions; within fourteen days the reflux begins, and it is almost completed in one month. (Anderson, l. c., No., 3595-3600.)
V.XXXIII.19

The circulation of the notes of the Bank of England also experiences every quarter a momentary fluctuation on account of the quarterly payment of the "dividends," that is, the interest on the national debt by which bank notes are first withdrawn from circulation and then once more distributed between the public. But they return very soon. Weguelin (B. A. 1857, No. 38) states that this fluctuation of the circulation of notes amounts to two and half millions. Mr. Chapman of the notorious firm of Overend, Gurney & Co., however, calculates the disturbance created by this fluctuation in the money market at a far higher figure. "If you take 6 or 7 millions for taxes out of the circulation, for the purpose of paying dividends with them, there must

be somebody, who places this amount within reach in the meantime." (B. A. 1857, No. 5196.)
V.XXXIII.20

Far more considerable and lasting are the fluctuations in the amount of the currency corresponding to the various phases of the industrial cycle. Let us listen to another member of that firm, the worthy Quaker Samuel Gurney (C. D. 1848-57, No. 2645): "At the end of October (1847) there were 20,800,000 pounds sterling in notes in the hands of the public. At that time a great difficulty prevailed in the matter of securing bank notes in the money market. This arose from the general apprehension that it would not be possible to secure them on account of the limitation of the Bank Acts of 1844. At present [March, 1848] the amount of bank notes in the hands of the public is...17,700,000 pounds sterling, but as there is no commercial alarm now, this is much more than is needed. There is no banker or no money dealer in London, who has not more bank notes than he can use."‘2650. "The amount of bank notes...out side of the keeping of the Bank of England forms a totally inadequate exponent of the actual state of the circulation, unless one considers at the same time...the condition of the commercial world and of credit."‘2651. "The feeling that we have a surplus at the present amount of currency in the hands of the public arises to a large degree from our present condition of great stagnation. With high prices and a brisk business 17,700,000 pounds sterling would give us a feeling of shortness."

[So long as the condition of business is such, that the returns on the loans given come in regularly and credit remains unshaken, the expansion and contraction of the currency depends simply upon the requirements of the industrials and merchants. Since gold does not enter into consideration in the wholesale trade, at least in England, and the circulation of gold aside from the fluctuations with the seasons, may be regarded as a rather constant magnitude for a long time, the circulation of the notes of the Bank of England forms a sufficiently accurate measure of these changes. In a dull period after a crisis the circulation is smallest, with the reanimation of the demand comes also a greater demand for currency, which increases with the rising prosperity; the quantity of currency reaches its culminating point in the period of overtension and overspeculation‘suddenly the crisis breaks out and over night the bank notes, yesterday still so plentiful, have disappeared from the market and with them the discounters of bills, the lenders of money on securities, the buyers of commodities. The Bank of England is called on for help‘but even its powers are soon exhausted, the Bank Act of 1844 compels it to contract its circulation of notes at the very moment when all the world cries out for notes, when the owners of commodities cannot sell and yet are supposed to pay and are ready to make any sacrifice, if they can only secure bank notes. "During the alarm," says the abovementioned banker Wright, l. c. No. 2930, "the country needs twice as much

currency as in ordinary times, because the medium of circulation is stored up by bankers and others."

As soon as the crisis breaks out, it is henceforth only a question of means of payment. But since every one is dependent upon the other for the coming in of these means of payment, and no one knows whether the other will be able to meet his payments when due, a stampede takes place for the means of payment available on the market, that is, the bank notes. Every one accumulates as many of them as he can secure, and thus the notes disappear from the circulation on the very day when they are needed most. Samuel Gurney (C. D. 1848-57, No. 1116) states that the amount of bank notes brought under lock and key in a moment of such terror in October 1847 to have been 4 to 5 million pounds sterling.‘F. E.]

V.XXXIII.22

In this connection, a special interest attaches to the cross-examination of the associate of Gurney, the aforementioned Chapman, before the B. A. of 1857. I reproduce its principal contents summarily, although it touches also upon certain other points, which we shall have to analyse later.

V.XXXIII.23

Mr. Chapman has the following to say:

V.XXXIII.24

4963. "I do not hesitate to say, that I do not consider it right, that the money market should be in the power of any one individual capitalist (such as exist in London), who can create an enormous scarcity of money and a stringency, when the circulation just happens to be low.…That is possible…there is more than one capitalist, who can take notes to the amount of one or two million pounds sterling out of the currency, when it suits his purpose."‘4995. A great speculator can sell one or two million pounds worth of consols and thus take the money out of the market. Something similar to this has happened quite recently, "it creates a very violent crisis."‘ V.XXXIII.25

4967. The notes are then indeed unproductive. "But that is nothing, when it serves a great purpose; its great purpose is to throw down the prices of funds, to create a money stringency, and to do that is quite within his power."‘An illustration: One morning there was a great demand for money in the Money Exchange; nobody knew its cause; somebody asked Chapman to lend him 50,000 pounds sterling at 7%. Chapman was astonished, his rate of interest was much lower; he accepted. Soon after that the man returned, took up another 50,000 pounds sterling at 7½%, then, 100,000 at 8%, and wanted still more at 8½%. Then even Chapman became frightened. Later it was found out that suddenly a considerable sum of money had been withdrawn from the market. But, says Chapman, "nevertheless I had

loaned out a considerable amount of money at 8%; I was afraid to go farther; I did not know what was coming."
V.XXXIII.26

It must not be forgotten, that, although 19 to 20 millions in notes are continually supposed to be in the hands of the public, nevertheless that portion of notes, which actually circulates, and on the other hand that portion, which is held unemployed by the banks as a reserve, continually differ considerably from one another. If this reserve is large, and therefore the actual circulation small, it means from the point of view of the money-market, that the circulation is full, money is plentiful; if the reserve is small, and the actual circulation full, then the language of the money-market says that the circulation is low, money is scarce, that is to say, the portion representing unemployed loan capital is small. A real expansion or contraction of the circulation in such a way, that it remains independent of the phases of the industrial cycle and leaves unchanged the amount needed by the public, occurs only for technical reasons, for instance, on the dates when taxes are due or the interest on a national debt. When taxes are paid, notes and gold beyond the ordinary amount flow into the Bank of England and practically contract the circulation without regard to its needs. The reverse takes place when the interest on the national debt is paid. In the first case, loans are demanded from the bank in order to secure currency. In the last case, the rate of interest falls in the private banks on account of the momentary growth of

their reserves. This has nothing to do with the absolute mass of currency, but only with the banking firm that sets this currency into circulation, and for whom this process represents itself as a loaning of loan capital, the profit of which it pockets.
V.XXXIII.27

In the one case there is a temporary displacement of the circulating medium, which the Bank of England balances by short loans at low interest shortly before the quarterly taxes or the quarterly dividends on the nationel debt become due; The issue of these supernumerary notes first fills up the gap caused by the payment of the taxes, while their return to the bank soon after brings back the excess of notes thrown into circulation by the payment of dividends to the public.
V.XXXIII.28

In the other case a low or full circulation means simply a different distribution of the same mass of currency into active circulation and deposits, which serve as an instrument of loans.
V.XXXIII.29

On the other hand, if the number of notes is increased by a flow of gold into the Bank of England, then these notes assist in the discounting of bills outside of the bank and return to it by the payment of loans, so that the absolute mass of the circulating notes is but momentarily increased.

V.XXXIII.30

If the circulation is full on account of the expansion of business (which may take place even though prices be relatively low), then the rate of interest may be relatively high on account of the demand for loan capital in consequence of rising profits and increased new investments. If it is low, on account of the contraction of business, or, perhaps, on account of a great fluidity of credit, then the rate of interest may be low even though prices be high. (See Hubbard.)
V.XXXIII.31

The absolute quantity of the circulation has a determining influence on the rate of interest only in times of stringency. The demand for a full circulation may either express merely a demand for means of hoarding (aside from the reduced velocity of the circulation of money and that of the conversion of the same identical pieces of money into loan capital) owing to lack of credit, as was the case in 1847, when the suspension of the Bank Acts did not cause any expansion of the circulation, but sufficed to draw forth the hoarded notes and to throw them into circulation. Or it may be that more means of circulation are actually required under prevailing circumstances, as was the case in 1857, when the circulation actually expanded for some time after the suspension of the Bank Acts.
V.XXXIII.32

Otherwise the absolute mass of the circulation has no influence upon the rate of interest, since the circulation, assuming the economy and velocity of the currency to be constant, is determined in the first place by the prices of commodities and the mass of the transactions (one of these elements generally paralysing the action of the other), and in the second place by the state of credit, whereas it does not by any means exert any reverse influence on the state of credit; and, finally, since the prices of commodities and interest have not necessarily any connection with each other.
V.XXXIII.33

During the Bank Restriction Act (1797-1820) there was a superfluity of currency, the rate of interest was always much higher than it became since cash payments were resumed. Later it fell rapidly with the restriction of the issue of notes and rising quotations of bills. In 1822, 1823, and 1832 the general circulation was low, and so was the rate of interest. In 1824, 1825, and 1836 the circulation was full and the rate of interest rose. In the summer of 1830 the circulation was full, the rate of interest low. Since the discoveries of gold the gold circulation of all Europe has expanded, the rate of interest risen. The rate of interest, then, does not depend upon the quantity of the circulating money.
V.XXXIII.34

The difference between the issue of currency and loans of capital is best shown in the real process of reproduction. We have seen, there (Volume II, Part III), in what manner the different component parts of the production are exchanged for one another. For instance, the variable capital consists substantially of the means of subsistence of the laborers, a portion of their own product. But this is paid over to them piecemeal in money. The capitalist has to advance this, and it depends very much on the organization of the credit system, whether he can pay out the new variable capital next week with the old money, which he paid out last week. The same holds good with regard to the acts of exchange between the different component parts of the total social capital, for instance, between the articles of consumption and the means of production of articles of consumption. The money for their circulation must, as we have seen, be advanced by one or both of the exchanging parties. It remains thereupon in the circulation, but returns after the consummation of the exchange always to him who advanced it, since it had been advanced by him in excess of his actually employed industrial capital (Volume II, Chapter XX.). Under a developed credit system, when the money is concentrated in the hands of the banks, it is they, at least nominally, who advance it. This advance refers only to the money existing in circulation. It is an advance of currency, not of the capitals, which the credit system circulates.

V.XXXIII.35

Chapman 5062. "There may be times, when the bank notes in the hands of the public constitute a very large amount, and yet none may be had." Money exists also during a panic. But every one takes good care not to convert it into loanable capital; every one holds on to it for the purpose of meeting real payments.
V.XXXIII.36

5099. "The banks in the rural districts send their unemployed surplus to you and other London firms?"‘"Yes."‘5100. "On the other hand, the factory districts of Lancashire and Yorkshire have bills of exchange discounted by you for business purposes?"‘"Yes."‘5101. "So that in this way the superfluous money of a certain district is utilised for the requirements of another district?"‘"Quite right."
V.XXXIII.37

Chapman says that the custom of the banks to invest their surplus money-capital for a short time in consols and treasury notes has decreased considerably of late, since the custom has been introduced to loan this money at call, reclaimable from day to day. For his own person he considers the purchase of such papers as very impracticable for his business. He prefers to invest his surplus money-capital in good bills of exchange, a part of which becomes due every day, so that he can always be sure of knowing how much ready money he can count on from day to day. [5001 to 5005.]
V.XXXIII.38

Even the growth of exports assumes more and more for every country, but particularly for the country granting the credit, the aspect of an increasing demand on the inland money-market, which is not felt, however, until the time of stringency. In times of increasing exports the manufacturers usually draw bills of exchange of long duration on the export merchant who receives consignments of British goods. (5126.)‘5127. "It is not frequently the case, that an agreement exists, to renew these bills from time to time?"‘[Chapman:] "This is a matter which they keep secret; we should not admit any such bills....It may surely take place, but I cannot say anything about this." [The innocent Chapman.] 5123. "When a great increase takes place in the exports, such as that of last year which alone amounted to 20 million pounds sterling, does not that in itself lead to a large demand for capital in order to discount bills representing these exports?"‘"Undoubtedly."‘5130. "Since England as a rule gives credit to foreign countries for all its exports, would not that imply the absorption of a corresponding additional capital for the time it lasts?"‘"England gives an enormous credit; but in return it takes credit for its raw materials. Drafts as are made out against us by America always for sixty days, and by other countries for ninety days. On the other hand we give credit; when sending goods to Germany, we give two or three months."

V.XXXIII.39

Wilson asks Chapman (5131), whether bills on England are not drawn simultaneously with the loading of these raw materials and colonial goods destined for importation, and whether these bills do not arrive together with the bills of lading. Chapman thinks so, but does not know anything about these "commercial" transactions, and suggests that more expert men be asked.‘In the export to America, says Chapman, the "commodities are symbolised in transit"; this gibberish signifies that the English export merchant draws against his goods on one of the great American banking firms in London by means of a bill of exchange running for four months, and this firm receives collateral from America.
V.XXXIII.40

5136. "Are not negotiations with far distant countries carried on by the merchant, who waits for his capital until the goods are sold?"‘"There may be some firms of great private wealth, who are able to invest their own capital without taking advances on goods; but these goods are mainly transformed into advances by the endorsement of well known firms.‘5137. "These firms are established in…London, Liverpool, and elsewhere."‘5138. "It makes no difference, then, whether the manufacturer has to give up his own money, or whether he gets some merchant in London or Liverpool to advance it; it always remains an advance made in England?"‘"Quite right. The manufacturer has to do with this only in a few cases" [but in 1847 in almost every case]. "For instance, a dealer in manufactured goods, in

Manchester, buys commodities and ships them through a responsible firm in London; as soon as the London firm has convinced itself, that everything has been packed as per agreement, he draws a bill running for six months on this London firm against these commodities bound for India, China, or some other country; then the banking world comes in and discounts this bill for him; so that about the time, when he has to pay for these commodities...."‘5139. "But even if this dealer now has the money, the banker had to advance it to him first?"‘"The banker has the bill of exchange; the banker has bought the bill; he utilises his banking capital in this form, that is in the discounting of commercial bills." [Hence even Chapman does not regard the discounting of bills as an advance of money, but as a purchase of commodities.‘F. E.]‘5140. "But still this constitutes always a part of the demands on the money-market in London?"‘"Undoubtedly; this is the essential occupation of the money-market and of the Bank of England. The Bank of England is just as glad to get these bills as we, it knows that they are a good investment."‘5141. "In this way, in proportion as the export business grows, the demand in the money-market grows likewise?"‘"In proportion as the prosperity of the country grows, we" [the Chapmans] "partake in it."‘5142. "If, then, the various fields of investment of capital expand suddenly, the natural consequence is a rise of the rate of interest?"‘"There is no doubt of it."

V.XXXIII.41

In 5143 Chapman cannot "quite understand, that with our large exports we had so much use for gold."
V.XXXIII.42

In 5144 the venerable Wilson asks: "Cannot it be that we are giving more credit on our exports than we are taking on our imports?"‘"For myself, I should doubt this point. If any one gets accepts on his Manchester goods shipped to India, you cannot accept for less than ten months. We had, and this is quite certain, to pay America for its cotton some time before India paid us; but what effect this has, to analyse that is a very fine point."‘5145. "When we, as we did last year, had an increase in the exports of manufactured goods to the amount of 20 million pounds sterling, we must have had before that a very considerable increase in the imports of raw materials" [and even in this way overexports are identical with overimports, and overproduction with over-commerce] "in order to produce this increased quantity of goods?"‘"Undoubtedly; we must have had a very considerable balance to pay; that is, the balance must have been against us at the time, but in the long run the quotations of bills of exchange with America are in our favor, and we have received for some time large shipments of precious metals from America."
V.XXXIII.43

5148. Wilson asks the arch usurer Chapman, whether he does not regard his high interest as a sign of great prosperity and a high rate

of profit. Chapman, evidently surprised at the naïveté of this sycophant, assents to this, of course, but is sincere enough to add the following clause: "There are some, who cannot help themselves in any other way; they have obligations to fulfill, and they must fulfill them, whether it be profitable or not; but if it lasts" [the high rate of interest] "it would indicate prosperity."‘Both of them forget that a high rate of interest may also indicate that, as it did in 1857, the roving knights of credit are infesting the country, and that these gentlemen can afford to pay a high interest, because they pay it out of other people's pockets (whereby they take part in the fixing of the rate of interest for all others) and meanwhile live in grand style on anticipated profits. At the same time this may indeed result in a very profitable business for manufacturers and others. The returns become wholly deceptive by the loan system. This explains also the following statements, which require no explanation so far as the Bank of England is concerned, because it discounts at a lower rate than others when the rate of interest is high.
V.XXXIII.44

5156. "I may well say," says Chapman, "that the amounts of our discounts are at their maximum at the present, when we had a high rate of interest for such a long time." [Chapman said this on July 21, 1857, a few months before the crash.]‘5157. "In 1852" [when the rate of interest was low] "they were not so high by far." For the business was indeed a great deal sounder then.

V.XXXIII.45

5159. "If the market were overflowing with money...and the banking discount low, we should have a decrease of bills of exchange....In 1852 we were in an entirely different phase. The exports and imports of the country were then nothing as compared to the present."‘5161. "Under this high rate of discount our discounting business is as high as in 1854." [When the rate of interest was from 5 to 5½%.]
V.XXXIII.46

Very amusing is that part of the testimony of Chapman, in which he shows that his class regard the money of the public indeed as their property and pretend to have a right to having the bills discounted by them always converted. The ingenuousness of the questions and answers is great. It becomes the duty of legislation to make the bills accepted by large firms always convertible; to take pains that the Bank of England should under all circumstances continue to give discount to the bill brokers. And yet three of these bill brokers failed in 1857 for about 8 millions, while their own capital was infinitesimal compared to their debts.‘5177. "Do you mean to say by this that in your opinion they" [that is bills accepted by the Barings or Loyds] "should be convertible by compulsion, in the way that a note of the Bank of England is now convertible into gold by compulsion?"‘"I am of the opinion, that it would be a very lamentable thing, if it were not discountable; a very extraordinary situation, that a man would have to

suspend payment, because he holds accepts by Smith, Payne & Co., to Jones, Loyd & Co., and cannot discount them."‘5178. "Is not an accept of the Barings an obligation, to pay a certain amount of money when the bill becomes due?"‘"That is quite right; but Messrs. Baring, if they undertake such an obligation, like every merchant who accepts such an obligation, do not dream in the least that they shall have to pay in Sovereigns; they figure on paying in the Clearing House."‘5180. "Do you mean, then, that a sort of machinery should be thought out, by means of which the public would be empowered to receive money before the bill becomes due, by having somebody else discount it?"‘"No, not by the accepting party; but if you mean to say that we shall not have the possibility to have commercial bills discounted, then we must change the whole constitution of things."‘5182. "You believe, then, that it" [a commercial bill] "should be convertible into money, exactly like a note of the Bank of England must be convertible into gold?"‘"Very decidedly, under certain circumstances."‘5184. "You believe, then, that the institutions of currency should be arranged in such a way that a commercial bill of undoubted solidity should at all times be convertible in money like a bank note?"‘"That I believe."‘5185. "You do not go so far as to say either the Bank of England or anybody else should be compelled by law to convert it?"‘"I go indeed so far as to say that if we make a law for the regulation of the currency, we should take steps to prevent the possibility of inland commercial bills becoming inconvertible, to the extent that such bills

are undoubtedly solid and legitimate."'This is the convertibility of the commercial bill against the convertibility of bank notes.
V.XXXIII.47

5189. "The money dealers of the country represent in fact only the public."'So did Mr. Chapman later before the jury in the Davison case. See the Great City Frauds.
V.XXXIII.48

5196. "During the quarterly terms" [when the dividends are paid] "it is...absolutely necessary, that we should turn to the Bank of England. If you take 6 or 7 millions out of the revenue of the state in anticipation of the dividends, somebody must be there, who will in the meantime advance this amount."'[In this case it is a question of a supply of money, not of capital or loan capital.]
V.XXXIII.49

5169. "Every one familiar with our commercial world must know that if we are in such circumstances that treasury notes become unsalable, that obligations of the East Indian Company are completely useless, that the best commercial bills cannot be discounted, a great apprehension must reign among those whose business places them in a position where they must make payment immediately on simple demand in customary currency, and this is the case with all bankers. The effect of this is then that everybody doubles his reserves. Now

just look what the effect of this is in the whole country, when every country banker, of whom there are about 500, has to instruct his London correspondent to remit to him 5,000 pounds sterling in bank notes. Even if we take such a small amount as this for an average, which is quite absurd, we arrive at 2½ million pounds sterling, which are withdrawn from circulation. How are they to be replaced?" V.XXXIII.50

On the other hand the private capitalists, etc., who have money do not care to let go of it at any interest, for they say, according to Chapman, 5194: "We prefer to have no interest at all rather than to be in doubt, whether we can get the money when we need it." V.XXXIII.51

5173. "Our system is this: We have 300 million pounds sterling worth of obligations, the payment of which in coin of the realm may be demanded at any moment; and this coin of the realm, if we use all of it for this purpose, amounts to 23 million pounds sterling, or thereabout; is not that a condition, which may throw us into convulsions at any moment?" Hence we have in times of crisis the sudden change of the credit system into a monetary system. V.XXXIII.52

Aside from the panic in the home market during crises, there can be any mention of the quantity of money only in so far as it concerns

metal, which is the world money. And this is precisely what Chapman excludes; he speaks only of 23 millions in bank notes.
V.XXXIII.53

The same Chapman, 5218. "The original cause of the disturbance of the money-market" [in April and later in October] "was undoubtedly in the quantity of money required for the regulation of the quotations of bills of exchange, in consequence of the extraordinary imports of the year."
V.XXXIII.54

In the first place, this reserve of world market money had then been reduced to its minimum. In the second place it served at the same time as a security for the convertibility of the credit money, the bank notes. It combined in this way two quite different functions, which, however, proceed both of them from the nature of money, since real money is always world money, and the credit money always rests upon the world money.
V.XXXIII.55

In 1847, without the suspension of the Bank Acts of 1844, "the Clearing Houses could not have carried on their business." (5221.)
V.XXXIII.56

That Chapman nevertheless had a suspicion of the coming crisis, is shown by the following statement: 5236. "There are certain conditions of the money-market (and the present one is not far removed from that), in which money is very difficult, and one has to have recourse to a bank."
V.XXXIII.57

5239. "As for the amounts taken by us out of the bank on Friday, Saturday and Monday, October 19, 1847, we should have been only too grateful on the following Wednesday, if we could have gotten back the bills of exchange; the money returned to us immediately after the panic was over."‘On Tuesday, October 23, the Bank Acts were suspended, and this broke the crisis.
V.XXXIII.58

Chapman believes (5274) that the bills running simultaneously on London amounted to 100 or 120 million pounds sterling. This did not include the local bills on provincial places.
V.XXXIII.59

5287. "While in October, 1856, the amount of the notes in the hands of the public rose to 21,155,000 pounds sterling, there was nevertheless a very extraordinary difficulty in raising money; although the public had so much in its hands, we could not get our fingers on

it."'This was due to the fear, caused by the panic, in which the Eastern Bank found itself for a time (March 1856).
V.XXXIII.60

5190-92. As soon as the panic is over, "all bankers who make their profits out of interest begin at once to employ their money."
V.XXXIII.61

5302. Chapman does not explain the unrest going with the decrease of the bank reserve out of the apprehension concerning the deposits, but attributes it to the fact that all those, who suddenly may be compelled to pay large sums of money, know very well that they may be driven to seek their last refuge in the bank, when a panic seizes the money-market; and "when the bank has a very small reserve, it is not glad to receive us; on the contrary."
V.XXXIII.62

By the way it is nice to observe the way in which the reserve dwindles away as a really existing magnitude. The bankers keep a minimum for their current business either in their own hands or with the Bank of England. The bill brokers hold the "loose bank money of the country" without any reserve. And the Bank of England has nothing to offset its debt for deposits but the reserves of bankers and others, together with some public deposits, etc., which it permits to be drained to its very lowest level, for instance to 2 millions. Aside

from these 2 millions of paper, then, this whole swindle has no other reserve but the metal reserve in times of crisis (and this reduces the reserve, because the notes, which come in to replace outgoing metal, must be annulled), and thus every reduction of this reserve by the expenditure of gold increases the crisis.
V.XXXIII.63

5306. "If no money were available to settle the balances in the Clearing House, I do not see that we could do anything else but to come together and make our payments in first drafts, checks on the Treasury Department, Smith, Payne & Co., etc."‘5307. "That is to say, if the government should fail to supply you with means of circulation, you would create one for yourself?"‘"What are we going to do? The public comes in and takes the circulating medium out of our hands; it does not exist."‘5308. "Then you would simply do in London what is done in Manchester every day?"‘"Yes."
V.XXXIII.64

Particularly good is the reply of Chapman to a question asked by Cayley, a Birmingham man of the Attwood school, with regard to Overstone's conception of capital. 5315. "It has been stated before this Committee, that it is not money, but capital, which is demanded in a panic like that of 1847; what is your opinion on this?"‘"I do not understand you; we deal only in money; I don't understand what you mean."‘5316. "If you mean thereby" [namely by commercial capital]

"the mass of money belonging to himself, which a man has in his business, if you call that capital, it forms generally a very small part of the money, with which he operates in his transactions by means of the credit given to him by the public"‘that is, by the intervention of the Chapmans.
V.XXXIII.65

5339. "Is it from lack of wealth that we suspend our cash payments?‘ By no means....We have no lack of wealth, but we move under a most artificial system, and when we have an immense superincumbent demand for our medium of circulation, it may lead to conditions, which prevent us from securing this medium of circulation. Should the entire commercial industry of the country be laid lame on this account? Should we close all avenues of employment?‘5338. "Should the question be asked, what we want to maintain, whether the cash payments or the industry of the country, I know which of the two I should drop."
V.XXXIII.66

Concerning the hoarding of bank notes "with the intention of intensifying the panic, or drawing advantages from its results" [5358] he says that this may be done easily. Three large banks would be sufficient. 5383. "Should it not be known to you, a man familiar with the great firms of our metropolis, that capitalists utilise these crises to make enormous profits out of the ruin of those, who fall

victims?"‘"There can be no doubt of it."‘And we may well believe Mr. Chapman on this score, although he finally broke his own neck in the attempt of making "enormous profits out of the ruin of his victims." For while his associate Gurney says "Every change in business is advantageous for him who is posted," Chapman says: "The one portion of society knows nothing about the other; there is, for instance, the manufacturer, who exports to the continent, or who imports his raw material, he knows nothing of the other, who deals in gold bullion." (5046.)‘And thus it happened, that one fine day Gurney and Chapman themselves "were not posted" and went into an ill-famed bankruptcy.
V.XXXIII.67

We have seen previously, that the issuing of notes does not signify an advance of capital in all cases. The following testimony of Tooke before the C. D. Committee of Lords, 1848, proves merely that an advance of capital, even if accomplished by the bank by an issue of new notes, does not signify straightway an increase in the number of circulating notes.
V.XXXIII.68

3099. "Do you believe, that the Bank of England could extend its loans considerably, without bringing about an increased issue of notes?"‘"There are abundant facts at hand to prove this. One of the most striking examples was in 1835, when the Bank made use of the

West Indian deposits and of the loan from the East Indian Company to increase its loans to the public; at the same time the amount of notes in the hands of the public actually decreased somewhat....Something similar to this is noticeable in 1847 at the time of the paying of the railroad deposits in the Bank; the securities [in discount and deposits] rose to about 30 millions, while no appreciable effect took place on the amount of notes in the hands of the public." V.XXXIII.69

Aside from the bank notes the wholesale trade has another medium of circulation, which is far more valuable to it, namely the bills of exchange. Mr. Chapman showed us, how essential it is for a regular flow of business that good bills of exchange should be taken in payment everywhere and under all conditions. If bills of exchange are no longer good, what in the world is to be done? How do these two media of circulation stand towards one another?
V.XXXIII.70

Gilbart says on this score: "The restriction of the amount of the circulation of notes increases regularly the amount of the circulation of bills of exchange. The bills are of two kinds‘commercial bills and banker's bills‘if money becomes scarce, then the money lenders say: "You draw on us and we will endorse," and when a provincial banker discounts a bill for some customer, he does not give him cash money, but his own draft for 21 days on his London agent. These bills serve

as a medium of circulation." (G. W. Gilbart, An Inquiry into the Causes of the Pressure, etc., p. 31.)
V.XXXIII.71

This is corroborated in a somewhat modified form by Newmarch, B. A. 1857, No. 1426: "There is no connection between the fluctuations in the amount of the circulating bills and those of the circulating bank notes...the only rather uniform result is...that as soon as a stringency in the money-market occurs, such as is indicated by a raising of the rate of discount, the volume of the circulation of bills is considerably increased and vice versa."
V.XXXIII.72

However, the bills of exchange written in such times are by no means only the short bank bills mentioned by Gilbart. On the contrary, they are largely bills of accommodation, which represent no real business at all, or at least only transactions made for the purpose of drawing bills of exchange on them; we have given sufficient illustrations of both. Hence the "Economist" (Wilson) says in comparing the security of such bills with that of bank notes: "Bank notes payable on presentation can never stay out in excess, because the excess would always return to the bank for exchange, while two-months drafts may be issued in great superabundance, as there is no means of controlling their issue until they become due, when they may have been replaced by others. That a nation should admit the security of

the circulation of bills payable at some future date, but raise doubts against a circulation of paper money payable on presentation, is completely unintelligible to us." (Economist, 1847, p. 572.)
V.XXXIII.73

The quantity of the circulating bills is, therefore, like that of the bank notes, merely determined by the requirements of commerce; in ordinary times the circulation of bills running in the fifties together with about 39 millions in bank notes amounted to about 300 millions, and from 100 to 120 millions of this were made out on London alone.
V.XXXIII.74

The volume of the circulation of bills has no influence on the circulation of notes, and is influenced by the latter only in times of stringency of money, when the quantity of bills increases and their quality deteriorates. Finally, at the time of a crisis, the circulation of bills fails completely; no man can make use of a promise to pay, since every one wants to accept only cash payment; only the bank note retains, at least so far in England, its ability to circulate, because the nation with its total wealth backs up the Bank of England.
V.XXXIII.75

We have seen that even Mr. Chapman, though himself a magnate of the money-market in 1847, complained bitterly, that there were a few large money-capitalists in London strong enough to carry disorder into

the whole money-market at any given moment and thereby to bleed the smaller money dealers. There were several large sharks of this kind, he said, who could considerably intensify a stringency, by selling one or two millions worth of consols and thereby taking an equal amount of bank notes (and at the same time of available loan capital) out of the market. To transform a stringency into a panic by the same maneuver, the joint action of three large firms would be sufficient.
V.XXXIII.76

The greatest capital power in London is, of course, the Bank of England, which, however, is prevented by its position as a semi-government institution from making too brutal a use of its power. Nevertheless it also knows enough about ways and means of making money, particularly since the Bank Acts of 1844.
V.XXXIII.77

The Bank of England has a capital of 14,553,000 pounds sterling, and commands besides about 3 million pounds sterling of a "Remainder," that is, undistributed profits, and furthermore all moneys collected by the government for taxes, etc., which must be deposited there until they are needed. Add to this the amount of other deposits, about 30 million pounds sterling in ordinary times, and the bank notes issued without a reserve, and we shall find that Newmarch made a rather conservative estimate, when he said (B. A. 1857, No. 1889): "I have

convinced myself, that the total amount of the funds employed continually in the [London] money-market may be estimated at about 120 million pounds sterling; and of these 120 millions the Bank of England commands a very considerable portion, about 15 to 20%."
V.XXXIII.78

So far as the Bank issues notes, which are not covered by the metal reserve in its vaults, it creates symbols of value, that form not only currency, but also additional, even if fictitious, capital for it to the nominal amount of these unprotected notes. And this additional capital yields an additional profit for it.‘In B. A. 1857, Wilson asks Newmarch, No. 1563: "The circulation of a bank's own notes, that is, on an average the amount remaining in the hands of the public, forms an addition to the effective capital of that bank, does it not?"‘"Assuredly."‘1564. "All profits, then, which the bank derives from this circulation, is a profit arising from credit, not from a capital actually owned by it?"‘"Assuredly."
V.XXXIII.79

The same is true, of course, of the private banks issuing notes. In his answers Nos. 1866 to 1868 Newmarch considers two-thirds of all bank notes issued by them (the last third has to be covered by a metal reserve in these banks) as "a creation of so much capital," because hard cash is saved to this amount. The profit of the banker may not be larger than that of other capitalists, notwithstanding all this. The

fact remains, however, that he draws the profit out of this national saving of hard cash. The fact that a national saving becomes a private profit does not shock the bourgeois economist in the least, since profit is under all circumstances the appropriation of national labor. Is there anything more insane than, for instance, the Bank of England in 1797 to 1817, whose notes have credit only by the backing of the state, taking payment from the state, and from the public, in the form of interest on government loans for the power, granted to it by the state, to transform these same notes from paper into money and then to loan them to the state?
V.XXXIII.80

The banks have still other means of creating capital. According to the same Newmarch the provincial banks, as mentioned above, have the habit of sending their superfluous funds (that is, notes of the Bank of England) to London bill brokers, who send them discounted bills of exchange in return. With these bills the bank serves its customers, since it follows the rule not to issue the bills of exchange received from its local customers any more, in order that the business transactions of these customers may not become known in their own neighborhood. These bills received from London do not only serve for the purpose of being issued to customers, who have to make payments direct to London, unless these customers should prefer to get the bank's own draft on London; they serve also for the settlement of payments in the province, for the endorsement of the

bankers secures local credit for them. In Lancashire, for instance, all the local banks' own notes and a large portion of the notes of the Bank of England, have been crowded out of the circulation by such bills. (Ibidem, 1568 to 1574.)
V.XXXIII.81

We see here, then, how the banks create credit and capital, 1) by the issue of their own notes, 2) by writing out drafts on London running as long as 21 days but paid to them in cash immediately on being written, and 3) by paying out discounted bills of exchange, which are endowed with credit primarily and essentially by endorsement through the bank, at least for the local district.
V.XXXIII.82

The power of the Bank of England is shown in its regulation of the market rate of interest. In times of normal business it may happen, that the Bank cannot prevent a moderate drain of gold from its metal reserve by raising the rate of discount,*104 because the demand for means of payment is satisfied by the private banks, stock banks and bill brokers, who have gained considerably in capital power during the last thirty years. In that case the Bank of England must use other means. But for critical moments, the statement made by Banker Glyn (of Glyn, Mills, Currie & Co.) before the C. D. 1848-57 still holds good:‘1709. "In times of great stringency in the country the Bank of England commands the rate of interest."‘"In times of extraordinary

stringency...when the discounts of the private bankers or brokers are relatively restricted, they fall to the Bank of England, and then it has the power to fix the market rate of interest."
V.XXXIII.83

It is true, that the Bank of England, being a public institution under government protection, cannot exploit its power ruthlessly, in the same way that private institutes may. For this reason Hubbard says before the Banking Committee B. A. 1857, No. 2844: "Is it not true, that when the rate of discount is highest, the Bank of England gives the cheapest service, and when lowest, then the brokers are the cheapest?"‘"That will always be the case, for the Bank of England never comes down as low as its competitors, and when the rate is highest, it never goes quite so high."
V.XXXIII.84

But nevertheless it is a serious event in business life, when the Bank of England draws the screw tighter in times of crisis, as the saying is, that is, when it raises the rate of interest, which is already above the average, still higher. "As soon as the Bank of England tightens the screw, all purchases for export into foreign countries cease...the exporters wait, till the depression of prices has reached its lowest point, and only then and not before do they buy. But when this point is reached, the quotations have once more become settled‘gold ceases to be exported, before this lowest point of the depression is reached.

Purchases of commodities for export may possibly bring back a part of the money sent abroad, but they come too late to prevent the drain." (G. W. Gilbart, An Inquiry into the Causes of the Pressure on the Money Market, London, 1840, p. 37.)‘"Another effect of the regulation of the currency by means of foreign quotations on bills of exchange is that it brings about an enormous rate of interest in times of crisis." (L. c., p. 40.)‘"The costs arising out of the restoration of the quotations on bills of exchange fall upon the productive industry of the country, whereas in the course of this process the profit of the Bank of England is positively increased by the fact that it continues its business with a smaller amount of precious metal." (L. c., p. 52.) V.XXXIII.85

But, says friend Samuel Gurney, "These great fluctuations of the rate of interest are advantageous for the bankers and money dealers‘all fluctuations in business are advantageous for him who is posted." And even though the Gurneys skim the cream off the ruthless exploitation of the precarious condition of business, whereas the Bank of England cannot do this with the same liberty, nevertheless it also makes quite nice profits‘not to mention the private profits, which of their own account fall into the lap of the directors, who have an exceptional opportunity to understand the general condition of business. According to a statement made before the Lord's Committee of 1817 on the matter of the resumption of specie payments these profits of the Bank of England for the entire period from 1797 to 1817 stood as follows:

Bonuses and increased dividends... 7,451,136
New stock divided among proprietors... 7,276,500
Increased value of capital... 14,553,000
Total... 29,280,636

on a capital of 11,642,100 pounds sterling in 19 years. (D. Hardcastle, Banks and Bankers, 2nd edition, London, 1843, p. 120.) If we estimate the total profits of the Bank of Ireland, which also suspended specie payments in 1797, by the same principle, we obtain the following result:

Dividends as by returns due 1821... 4,736,085
Declared bonus... 1,225,000
Increased assets... 1,214,800
Increased value of capital... 4,185,000
Total... 11,360,885

on a capital of 3 million pounds sterling. (Ibidem, p. 163.)
V.XXXIII.86

Talk about centralisation! The credit system, which has its center in the so-called national banks and the great money lenders and usurers about them, is an enormous centralisation, and gives to this class of parasites a fabulous power, not only to despoil periodically the

industrial capitalists, but also to interfere into actual production in a most dangerous manner‘and this gang knows nothing about production and has nothing to do with it. The Acts of 1844 and 1845 are proofs of the growing power of these bandits, who are joined by the financiers and stock jobbers.
V.XXXIII.87

Should any one still dream that these honorable bandits exploit national and international production only in the interest of production and of the exploited themselves, he will surely be taught better by the following homily on the high moral dignity of the bankers: "The bank establishments are religious and moral institutions. How often has not the fear of being seen by the vigilant and disapproving eye of his banker deterred the young business man from seeking the society of noisy and extravagant friends? How anxious he is to stand well in the estimation of the banker, to appear always respectable! The knit brow of the banker has more influence over him than the moral preaching of his friends; does he not tremble to be suspected of being guilty of fraud or of the least false statement, for fear of causing suspicion, in consequence of which his banking accommodation might be restricted or cancelled? The advice of the banker is more important to him than that of the clergyman." (G. M. Bell, a Scotch bank director, in The Philosophy of Joint Stock Banking, London, 1840, pp. 46 and 47.)

Notes for this chapter

103.

Average number of days, during which a bank note remained in circulation:

Year	5 p. Note		10 p. Note		20-100 p.	200-500 p. 1000 p.
1798	?	236	209	31	22	
1818	148	137	121	18	13	
1846	79	71	34	12	8	
1856	70	58	27	9	7	

Tabulation made by Marshall, Cashier of the Bank of England, in Report on Bank Acts, 1857, II, Appendix, p. 301-302.

104.

In the general meeting of the stockholders of the Union Bank of London, on January 17, 1894, President Ritchie relates that the Bank of England raised the discount in 1893 from 2½% in July to 3 and 4% in August, and when it lost fully 4½ million pounds sterling in gold in spite of this, it raised the rate of interest to 5%, whereupon gold flowed back to it and the bank rate was reduced to 4% in September and 3% in October. But this bank rate was not recognized in the market. "When the bank rate was 5%, the market rate was 3½% and the rate for money 2½%; when the bank rate fell to 4%,

the rate of discount was 2 3/8% and the money rate 1¾%; when the bank rate was 3%, the rate of discount was 1½% and the money rate a trifle lower." (Daily News, January 18, 1894.)‘F. E.

Part V,

Volume III Chapter XXXIV THE CURRENCY PRINCIPLE AND THE ENGLISH BANK LAWS OF 1844.

V.XXXIV.1

[In a former work*105 the theory of Ricardo on the value of money as related to the prices of commodities has been analysed; we can, therefore, confine ourselves here to the indispensable. According to Ricardo, the value of metallic money is determined by the labor time incorporated in it, but only so long as the quantity of money stands in the right proportion to the quantity and price of the commodities to be handled. If the quantity of the money rises above this proportion, its value falls, the prices of commodities rise; if its quantity falls below the normal proportion, then its value rises and the prices of commodities fall‘assuming all other circumstances to remain unchanged. In the first case the country, in which this excess of gold exists, will export the depreciated gold and import commodities; in the second case the gold will flow to those countries, in which it is held above its value, while the depreciated commodities flow from these

countries to other markets, where they can obtain normal prices. "Since gold itself may become, both as coin and bullion, a token of value of greater or smaller magnitude than its bullion value, it is self-evident that convertible bank notes in circulation have to share the same fate. Although bank notes are convertible, i.e. their real value and nominal value agree, the aggregate currency consisting of metal and of convertible notes may appreciate or depreciate according as to whether it rises or falls, for reasons already stated, above or below the level determined by the exchange-value of the commodities in circulation and the bullion value of gold....This depreciation, not of paper as compared with gold, but of gold and paper together, or of the aggregate currency of a country, is one of the principal discoveries of Ricardo, which Lord Overstone and Co. pressed into their service and made a fundamental principle of Sir Robert Peel's Bank legislation of 1844 and 1845." (L. c. p. 241.)

We need not repeat here the demonstration of the incorrectness of this Ricardian theory, which is given in the same place. We are here merely interested in the way in which Ricardo's theses were elaborated by that school of bank theorists, who dictated the above named Bank Acts of Peel.

"The commercial crises of the nineteenth century, namely, the great crises of 1825 and 1836, did not result in any new developments in the Ricardian theory of money, but they did furnish new applications for it. They were no longer isolated economic phenomena, such as the depreciation of the precious metals in the

sixteenth and seventeenth centuries which interested Hume, or the depreciation of paper money in the eighteenth and early nineteenth centuries which confronted Ricardo; they were the great storms of the world market in which the conflict of all the elements of the capitalist process of production discharge themselves, and whose origin and remedy were sought in the most superficial and abstract sphere of this process, the sphere of money-circulation. The theoretical assumption from which the school of economic weather prophets proceeds, comes down in the end to the illusion that Ricardo discovered the laws governing the circulation of purely metallic currency. The only thing that remained for them to do was to subject to the same laws the circulation of credit and bank note currency.

"The most general and most palpable phenomenon in commercial crises is the sudden general decline of prices following a prolonged general rise. The general decline of prices of commodities may be expressed as a rise in the relative value of money with respect to all commodities, and the general rise of prices as a decline of the relative value of money. In either expression the phenomenon is described but not explained....The different wording leaves the problem as little changed as would its translation from German into English. Ricardo's theory of money was exceedingly convenient, because it lends to a tautology the semblance of a statement of casual connection. Whence comes the periodic general fall of prices? From the periodic rise of the relative value of money. Whence the general periodic rise of prices? From the periodic decline of the relative value of money. It

might have been stated with equal truth that the periodic rise and fall of prices is due to their periodic rise and fall....The tautology once admitted as a statement of cause, the rest follows easily. A rise of prices of commodities is caused by a decline of the value of money and a decline of the value of money is caused, as we know from Ricardo, by a redundant currency, i.e., by a rise of the volume of currency over the level determined by its own intrinsic value and the intrinsic value of the commodities. In the same manner, the general decline of prices of commodities is explained by the rise of the value of money above its intrinsic value in consequence of an inadequate currency. Thus, prices rise and fall periodically, because there is periodically too much or too little money in circulation. Should a rise of prices happen to coincide with a contracted currency, and a fall of prices with an expanded one, it may be asserted in spite of those facts that in consequence of a contraction or expansion of the volume of commodities in the market which cannot be proved statistically, the quantity of money in circulation has, although not absolutely, yet relatively increased or declined. We have seen that according to Ricardo these universal fluctuations must take place even with a purely metallic currency, but that they balance each other through their alternations; thus, e.g., an inadequate currency causes a fall of prices, the fall of prices leads to an export of commodities abroad, this export causes again an import of gold from abroad, which, in its turn, brings about a rise of prices; the opposite movement taking place in case of a redundant currency, when commodities are

imported and money is exported. But, since in spite of these universal fluctuations of prices which are in perfect accord with Ricardo's theory of metallic currency, their acute and violent form, their crisis form, belongs to the period of advanced credit, it is perfectly clear that the issue of bank notes is not exactly regulated by the laws of metallic currency. Metallic currency has its remedy in the import and export of precious metals, which immediately enter circulation and thus, by their influx or efflux, cause the prices of commodities to fall or rise. The same effect on prices must now be exerted by banks by the artificial imitation of the laws of metallic currency. If gold is coming in from abroad it proves that the currency is inadequate, that the value of money is too high and the prices of commodities too low, and, consequently, that bank notes must be put in circulation in proportion to the newly imported gold. On the other hand, notes have to be withdrawn from circulation in proportion to the export of gold from the country. That is to say, the issue of bank notes must be regulated by the import and export of the precious metals or by the rate of exchange. Ricardo's false assumption that gold is only coin, and that therefore all imported gold swells the currency, causing prices to rise, while all exported gold reduces the currency, leading to a fall of prices, this theoretical assumption is turned into a practical experiment of putting in every case an amount of currency in circulation equal to the amount of gold in existence. Lord Overstone (the banker Jones Loyd), Colonel Torrens, Norman, Clay, Arbuthnot and a host of other writers, known in England as the adherents of

the 'Currency Principle,' not only preached this doctrine, but with the aid of Sir Robert Peel succeeded in 1844 and 1845 in making it the basis of the present English and Scotch bank legislation. Its ignominious failure, theoretical as well as practical, following upon experiments on the largest national scale, can be treated only after we take up the theory of credit." (L. c. pages 255 to 259.)

The critique of this school was furnished by Thomas Tooke, James Wilson (in the "Economist" of 1844 to 1847) and John Fullarton. But how incompletely they themselves had seen through the nature of gold, and how unclear they were about the relation of money and capital, we have shown several times, particularly in chapter XXVIII of this volume. We quote here merely a few instances in connection with the transactions of the Committee of the Lower House of 1857 concerning Peel's Bank Acts (B. C. 1857).‘F. E.]

V.XXXIV.2

J. G. Hubbard, former Governor of the Bank of England, testifies:‘ 2400. "The effect of the gold exports...absolutely does not touch prices of commodities. It does, however, affect very much the prices of securities, because in proportion as the rate of interest changes, the values of the commodities impersonating this interest must necessarily be strongly affected."‘He presents two tables covering the years 1834 to 1843 and 1844 to 1853, which prove that the movement of prices of fifteen of the most important commercial

articles was quite independent of the export and import of gold and of the rate of interest. On the other hand they prove a close connection between the export and import of gold, which is indeed the "representative of our capital seeking investment," and the rate of interest.‘"In 1847 a very large amount of American securities was transferred back to America, also Russian securities to Russia, and other continental papers to the countries from which we derived our imports of corn."
V.XXXIV.3

The fifteen principal articles mentioned in the following tables of Hubbard are: Cotton, cotton yarn, cotton fabrics, wool, wool cloth, flax, linen, indigo, raw iron, white sheet metal, copper, tallow, sugar, coffee, silk.

Table. Click to enlarge in new window.

Table. Click to enlarge in new window.
V.XXXIV.4

Hubbard remarked with reference to this: "Just as in the 10 years from 1834 to 1843, so in the years from 1844 to 1853 fluctuations in the gold of the bank were accompanied in every case by an increase or decrease of the loanable value of the money advanced at a discount; and on the other hand the changes in the prices of inland

commodities showed a complete independence from the amount of the currency, as shown by the gold fluctuations of the Bank of England." (Bank Acts Report, 1857, II, pages 290 and 291.)
V.XXXIV.5

Since the demand and supply of commodities regulates their market-prices, it becomes evident here, that Overstone is wrong when he identifies the demand for loanable capital (or rather the discrepancies of its supply from demand), as expressed by the rate of discount, with the demand for actual "capital." The contention that the prices of commodities are regulated by the fluctuations in the quantity of the currency is now concealed under the phrase that the fluctuations in the rate of discount express fluctuations in the demand for actual material capital, as distinguished from money-capital. We have seen that both Norman and Overstone actually made this contention before the same Committee, and that especially the latter was compelled to take refuge in very lame subterfuges, until he was finally cornered. (Chapter XXVI.) It is indeed the old fib that changes in the quantity of gold existing in a certain country, by increasing or reducing the quantity of the medium of circulation in that country, must raise or lower the prices of commodities in this country. If gold is exported, then, according to this currency theory, the prices of commodities must rise in the country importing this gold, and this must enhance the value of the exports of the gold exporting country on the market of the gold importing country; on the other hand, the value of the

exports of the gold importing country would fall on the markets of the gold exporting country, while it would rise in the home country, which receives the gold. But in fact the reduction of the quantity of gold raises only the rate of interest, whereas an increase in the quantity of gold lowers the rate of interest; and were it not for the fact that the fluctuations of the rate of interest are taken into account in the determination of cost-prices, or in the determination of demand and supply, the prices of commodities would be wholly unaffected by them.
V.XXXIV.6

In the same report N. Alexander, Chief of a great Indian firm, expresses himself in the following manner on the heavy drains of silver to India and China about the middle of the fifties, partly in consequence of the Chinese Civil War, which checked the sale of English fabrics in China, and partly of the epidemic among silk worms in Europe, which reduced the output of silk in Italy and France considerably:
V.XXXIV.7

4337. "Is the drain toward China or India."‘"They send the silver to India, and with a goodly portion of it they buy opium, all of which goes to China in order to form a fund for the purchase of silk; and the condition of the markets in India (in spite of the accumulation of silver there) makes it more profitable for the merchant to send out

silver than to send fabrics or other English factory goods."‘4338. "Did not a heavy drain come out of France, by which we secured the silver?"‘"Yes, a very heavy one."‘4344. "Instead of importing silk from France and Italy, we ship it there in large quantities, both Bengal and Chinese."
V.XXXIV.8

In other words, silver, the money metal of that continent, was sent to Asia instead of commodities, not because the prices of commodities had risen in the country which had produced them (England), but because prices had fallen on account of overimport in that country which received them; and this in spite of the fact that the silver was received by England from France and had to be paid partly in gold. According to the Currency Theory prices should have fallen by such imports in England and risen in India and China.
V.XXXIV.9

Another illustration. Before the Lords' Committee (C. D. 1848-1857), Wylie, one of the first Liverpool merchants, testifies as follows:‘1994. "At the end of 1845 there was no better paying business and none that yielded greater profits [than cotton spinning]. The supply of cotton was large and good, workable cotton could be had at 4 d. per pound, and such cotton could be spun into good second mule twist No. 40 at about 8 d. total expense to the spinner. This yarn was sold in large quantities in September and October, 1845, and equally large

contracts made for delivery at 10½ and 11½ d. per pound, and in some instances the spinners realised a profit which equalled the purchase price of the cotton."‘1996. "The business remained profitable until the beginning of 1846."‘2000. "On March 3, 1844, the cotton supply [672,042 bales] was more than double of what it is today [on March 7, 1848, when it was 301,070 bales], and yet the price was 1¼ d. per pound dearer." [6¼ d. as against 5 d.]‘At the same time yarn, good second mule twist No. 40, had fallen from 11½ to 12 d. to 9½ d. in October and 7¾ d. at the end of December, 1847; yarn was sold at the purchase price of the cotton from which it had been spun (Ibidem, No. 2021 and 2023). This proves the selfinterest of Overstone's wisdom to the effect that money is supposed to be "Dearer" when capital is "scarce." On March 3, 1844, the bank rate of interest stood at 3%; in October and November, 1847, it rose to 8 and 9% and was still 4% on March 7, 1848. The prices of cotton were depressed far below that price which corresponded to the condition of the supply, by the complete stopping of sales and the panic with its correspondingly high rate of interest. The consequence of this was on the one hand an enormous decrease of the imports in 1848, and on the other a decrease of production in America; consequently a new rise in cotton prices in 1849. According to Overstone the commodities were too dear, because there was too much money in the country.

V.XXXIV.10

2002. "The recent deterioration in the condition of the cotton industry is not due to the lack of raw materials, since the price is lower, although the supply of raw cotton is considerably reduced." But Overstone tangles himself up in a nice confusion of the price, or value, of commodities, with the value of money, that is, the rate of interest. In his reply to question 2026, Wylie sums up his general judgment of the Currency Theory, on which Cardwell and Sir Charles Wood based in May, 1847, their contention that it would be necessary "to carry the Bank Act of 1844 out in its full scope."‘"These principles seem to me to be of a nature to give to money an artificially high value and to all commodities a ruinously low value."‘He says furthermore concerning the effects of this Bank Act on business in general: "Since four months' bills of exchange, which are the regular drafts of manufacturing towns on merchants and bankers for purchased commodities intended for export to the United States, could no longer be discounted except at great sacrifices, the carrying out of orders was prevented to a large degree, until after the Government Letter of October 25." [Suspension of Bank Acts], "when these four months' bills became once more discountable." (2097.)‘We see, then, that the suspension of this Bank Act was felt as a relief also in the provinces.‘2102. "Last October [1847] nearly all American buyers, who purchase commodities here, immediately curtailed their purchases as much as possible; and when the news of the dearth of money reached America, all new orders stopped."‘2134. "Corn and sugar were special cases. The corn market was affected by the crop

prospects, and sugar was affected by the enormous supplies and imports."‘2163. "Of our money obligations to America…many were liquidated by forced sales of consigned goods, and many, I fear, were liquidated by bankruptcies here."‘2196. "If I remember correctly, as much as 70% interest was paid on our Stock Exchange in October, 1847."
V.XXXIV.11

[The crisis of 1837, with its protracted aftereffects, which were followed in 1842 by a regular aftercrisis, and the self-interested blindness of the industrials and merchants, who would not notice any overproduction to save their lives‘for such a thing was a nonsense and an impossibility according to vulgar economy‘had ultimately accomplished that confusion of thought, which permitted the Currency School to put their dogma into practice on a national scale. The Bank legislation of 1844 and 1845 was passed.
V.XXXIV.12

The Bank Act of 1844 divides the Bank of England into an issue department for notes and a banking department. The issue department receives securities, principally government debts, to the amount of 14 millions and the entire metal treasure, which shall consist of not more than one-quarter in silver, and issues notes to the full amount of both of them. To the extent that these are not in the hands of the public, they are held in the banking department and

form its ever ready reserve together with the small amount of coin required for daily use (about one million). The issue department gives to the public gold for notes and notes for gold; the remainder of the transactions with the public is carried on by the banking department. The private banks authorised in England and Wales to issue their own notes retain this privilege, but their issue of notes is fixed; if one of these banks stops issuing its own notes, then the Bank of England may raise its uncovered amount of notes by two-thirds of the deposited allowance; in this way its allowance rose by 1892 from 14 to 16½ million pounds sterling (exactly 16,450,000 pounds sterling).
V.XXXIV.13

For every five pounds in gold, then, which leave the bank treasury, a five pound note returns to the issue department and is destroyed; for every five sovereigns going into the treasury a new five pound note passes into circulation. In this way Overstone's ideal paper circulation, which follows strictly the laws of metallic circulation, is practically carried out, and by this means crises are forever made impossible, according to the claims of the Currency advocates.
V.XXXIV.14

But in reality the separation of the Bank into two independent departments robbed the management of the possibility of disposing freely of its entire available means in critical moments, so that cases might occur, in which the banking department might be confronted

with a bankruptcy, while the issue department still possessed several millions in gold and its entire 14 millions of securities untouched. And this could take place so much more easily, as there is one period in almost every crisis, when heavy exports of gold flow to foreign countries, which must be covered in the main by the metal reserve of the bank. But for every five pounds in gold, which then go to foreign countries, the circulation of the home country is deprived of one five pound note, so that the quantity of the currency is reduced precisely at a time, when the largest quantity of it is most needed. The Bank Act of 1844 thus directly challenges the commercial world to think betimes of laying up a reserve fund of bank notes on the eve of a crisis, in other words, to hasten and intensify the crisis; by this artificial intensification of the demand for money accommodation, that is for means of payment, and its simultaneous restriction of the supply, which take effect at the decisive moment, this Bank Act drives the rate of interest to a hitherto unknown hight; hence, instead of doing away with crises, the Act rather intensifies them to a point, where either the entire commercial world must go to pieces, or the Bank Act. Twice, on October 25, 1847, and on November 12, 1857, the crisis had risen to this culmination; then the government released the Bank from its limitation in the matter of issuing notes, by suspending the Act of 1844, and this sufficed in both cases to break the crisis. In 1847 the assurance sufficed, that bank notes would again be issued for first class securities, in order to bring to light the 4 to 5 millions of hoarded notes and throw them back into circulation;

in 1857 the issue of notes exceeding the legal amount did not quite reach one million, and this was out for a very short time.
V.XXXIV.15

It may also be noted that the legislation of 1844 still shows traces of a recollection of the first twenty years of the nineteenth century, the time of the suspension of specie payments of the bank and the depreciation of notes. The fear that the notes might lose their credit is still plainly visible. But this is a very groundless fear, since already in 1825 the issue of some discovered old supply of one pound notes, which had been out of circulation, broke the crisis and proved, that even then the credit of the notes remained unshaken in times of the most universal and strong distrust. And this is easily explained. For the entire nation backs up these symbols of value with its credit.‘F. E.]
V.XXXIV.16

Let us now listen to a few statements on the effect of the Bank Act. John Stuart Mill believes that the Bank Act of 1844 kept down overspeculation. Happily this wise man spoke on June 12, 1857. Four months later the crisis had broken out. He literally congratulates the "bank directors and the commercial public in general" on the fact that they "understand the nature of a commercial crisis far better than formerly, and the very great injury which they inflict upon themselves

and the public by promoting overspeculation." (B. C., 1857, No. 2031.)
V.XXXIV.17

Wise Mr. Mill thinks that, if one pound notes are issued "as loans to manufacturers and others, who pay wages...then the notes may get into the hands of others who spend them for purposes of consumption, and in this case the notes constitute in themselves a demand for commodities and may temporarily tend to promote a raise in prices." Mr. Mill assumes, then, that the manufacturers will pay higher wages, because they pay them in paper instead of gold? Or does he believe that when a manufacture receives his loan in 100 pound notes and changes them for gold, then these wages would constitute less of a demand than they would when paid at the same time in one pound notes? And does he not know that, for instance, in certain mining districts wages were paid in notes of local banks, so that several laborers together received a five pound note? Does this increase the demand for them? Or will the bankers advance money to the manufacturers more easily in small than in large notes, and make the loan larger?
V.XXXIV.18

[This peculiar fear of one pound notes on the part of Mill would be inexplicable, if his whole work on political economy did not show his eclecticism, which recoils from no contradictions. On the one hand he

agrees in many things with Tooke against Overstone, on the other hand he believes in the determination of the prices of commodities by the quantity of the existing money. He is thus by no means convinced, that, all other circumstances remaining unchanged, a sovereign wanders into the vaults of the Bank for every one pound note issued. He fears that the quantity of the currency could be increased and thereby depreciated, that is, the prices of commodities might be enhanced. This and nothing else is concealed behind his above-mentioned apprehension.‘F. E.]
V.XXXIV.19

Concerning the bipartition of the Bank, and the excessive precaution to safeguard the cashing of notes, Tooke expresses himself before the C. D. 1848-57 as follows:
V.XXXIV.20

The greater fluctuations of the rate of interest in 1847, as compared with 1837 and '39, are due merely to the separation of the Bank into two departments (3010).‘"The security of the banknotes was not affected, neither in 1825, nor in 1837 nor in 1839 (3015).‘The demand for gold in 1825 aimed only to fill out the vacant space created by the complete disavowal of the one pound notes of the provincial banks; this vacant space could be filled out only by gold, until the Bank of England also issued one pound notes (3022).‘In

November and December, 1825, not the least demand existed for gold to export (3023).
V.XXXIV.21

"As for a disavowal of the Bank at home and abroad, a suspension of the payment of dividends and deposits would have much more serious consequences than a suspension of payment on bank notes (3028).
V.XXXIV.22

3035. Would you not say that every circumstance, which would in the last instance endanger the convertibility of the bank notes, might create new and serious difficulties in a moment of commercial stringency?‘"Not at all."
V.XXXIV.23

In the course of 1847 "an increased issue of notes might, perhaps, have contributed to replenish the gold reserve of the Bank, as it did in 1825." (3058).
V.XXXIV.24

Before the Committee on B. A. 1857, Newmarch testifies: 1357. "The first bad effect...of this separation of the two departments (of the Bank) and of the necessarily resulting bipartition of the gold reserve was that the banking business of the Bank of England, that is, that entire branch of its operations, which brought it into direct touch with

the commerce of the country, was continued with only one-half of its former reserve. In consequence of this division of the reserve it happened that, as soon as the reserve of the banking department shrank in the least, the Bank was compelled to raise its rate of discount. This reduced reserve thus caused a series of abrupt changes in the rate of discount."‘"Of such changes there have been since 1844" [until June, 1857] "some 60 in number, whereas they amounted to hardly one dozen before 1844 within a similar period."
V.XXXIV.25

Of special interest is the testimony of Palmer, who was a director of the Bank of England since 1811 and for a while its Governor, before the Lords' Committee on C. D. 1848-57:
V.XXXIV.26

828. "In December, 1825, the Bank had retained only about 1,100,000 pounds sterling in gold. At that time it would have failed inevitably, if this act had existed then [meaning the Act of 1844]. In December it issued, I believe, 5 or 6 million notes in one week, and this relieved the panic of that time considerably."
V.XXXIV.27

825. "The first period [since July 1, 1825], when the present bank legislation would have collapsed, if the Bank had attempted to carry its hitherto initiated transactions through, was on February 28, 1837.

There were then from 3,900,000 to 4,000,000 pounds sterling in the possession of the Bank, and it would have retained no more than 650,000 pounds sterling in reserve. Another period is 1839, and it lasted from July 9 to December 5."‘826. "What was the amount of the reserve in this case?"‘"The reserve was minus altogether 200,000 pounds sterling on September 5. On November 5, it rose to about 1 or 1½ millions."‘830. "The Act of 1844 would have prevented the Bank from assisting the American business in 1837."‘"Three of the principal American firms failed....Nearly every firm in the American business was ruled out of credit, and if the Bank had not come to the rescue, I do not believe that more than one or two firms could have maintained themselves."‘836. "The panic of 1837 is not to be compared with that of 1847. That of 1837 confined itself mainly to the American business."‘838. (At the beginning of June the management of the Bank discussed the question, how to remedy the panic.) "Whereupon some of the gentlemen defended the view...that the correct principle would be to raise the rate of interest, so that the prices of commodities would fall; in brief, to make money dear and commodities cheap, by which the foreign payment would be accomplished."‘906. "The introduction of an artificial limitation of the powers of the Bank by the Act of 1844, in place of the old and natural limit of its powers, that is, the actual amount of its metal supply, makes business artificially difficult and thus effects prices in a way which was quite unnecessary without this Act."‘968. "Under the effect of the Act of 1844 the metal reserve of the Bank, under

ordinary circumstances, cannot be reduced materially below 9½ millions. This would create a pressure on prices and credit, which would bring about such a change in the foreign exchange rates, that the gold imports would rise and increase the amount of gold in the issue department."‘996.
V.XXXIV.28

"Under the present limitation you [the Bank] have not command of silver which is required in times when silver is needed in order to affect foreign rates."‘999. "What was the purpose of the rule limiting the silver supply of the Bank to one-fifth of its metal reserve?"‘"I cannot answer this question!"
V.XXXIV.29

The purpose was to make money dearer; so was, aside from the Currency Theory, the separation of the two bank departments and the compulsion for Scotch and Irish banks to hold gold in reserve for the issue of notes beyond a certain amount. This brought about a decentralisation of the national metal supply, which rendered this supply less able to correct unfavorable bill rates. All these rules aim at a raise of the rate of interest: That the Bank of England shall not issue notes beyond 14 millions except against its gold reserve; that the banking department shall be managed like an ordinary bank, pressing the rate of interest down when money is plentiful and driving it up when money is scarce; the limitation of the silver supply, the

principal means of rectifying the rates of bills on the continent and in Asia! the rules concerning the Scotch and Irish banks, who never need any money for export and yet must keep it now under the pretence of an actually imaginary convertibility of their notes. The fact is that the Act of 1844 caused for the first time in 1857 a run on the Scotch banks for gold. Nor did the new bank legislation make any distinction between a drain of gold toward foreign countries and a drain to inland markets, although their effects are evidently different. Hence the continual great fluctuations of the market rate of interest. With reference to silver Palmer says twice, No. 992 and 994, that the Bank can buy silver for notes only when the rates on bills are favorable to England, so that silver is superfluous; for (1003) "the only purpose for which a considerable portion of the metal reserve may be kept in silver is that of facilitating foreign payments during the time when the rates on bills are against England."‘1008. "Silver is a commodity which, being money in all the rest of the whole world, is for this reason the most fitting commodity...For this purpose" [payments abroad]. "Only the United States have taken exclusively gold during recent times."
V.XXXIV.30

In his opinion the Bank would not have to raise the rate of interest above its old level of 5% in times of stringency, so long as no unfavorable bill rates draw the gold to foreign countries. Were it not for the Act of 1844, the Bank would then be able to discount all first

class bills presented to it without any difficulty. [1018 to 20.] But with the Act of 1844, and in the condition, in which the Bank was in October, 1847, "there was no rate of interest which the Bank could ask from creditable firms, which they would not have paid willingly in order to continue their payments." And this high rate of interest was precisely the purpose of the Act.
V.XXXIV.31

1029. "I must make a great distinction between the effect of the rate of interest on the foreign demand [for precious metal] and a raise of the rate of interest for the purpose of stemming a rush on the bank during a period of lacking credit inland."‘1023. "Before the act of 1844, when the rates were in favor of England, and unrest, yea, a positive panic, reigned in the country, no limit was set to the issue of notes, by which alone this condition of stringency could be relieved."
V.XXXIV.32

So speaks a man who had sat 39 years in the management of the Bank of England. Let us now hear a private banker, Twells who had been an associate of Spooner, Attwoods & Co. since 1801. He is the only one among all the witnesses before the B. C. 1857, who gives us an insight into the actual condition of the country and who sees the approach of the crisis. For the rest he is a sort of Little-Shilling-Man from Birmingham, for his associates, the brothers Attwood, are the founders of this school. (See A Contribution to the Critique of

Political Economy, p. 100.) He testifies: 4488. "How do you think the Act of 1844 has operated?"‘"Should I answer you as a banker, I would say that it has operated splendidly, for it has furnished to the bankers and [money-] capitalists of all sorts a rich harvest. But it has operated very badly for the honest and thrifty business man, who needs steadiness in discount, in order that he may make his arrangements with confidence....It has made the lending of money a very profitable business."‘4489. The Bank Act "Enables the London Stock Bank to pay to its stockholders 20 to 22%?"‘"One of them paid recently 18%, and I believe another 20%; they have good grounds for standing determinedly by the Bank Act."‘4490. "Small business men and respectable merchants, who have no large capital...it pinches them hard....The only means which I have of learning this is such a surprising quantity of their drafts, which are not paid. These drafts are always small, about 20 to 100 pounds sterling, many of them are not paid and go back for lack of payment to all parts of the country, and this is always a sign of stringency among‘the small dealers."‘4494. He declares that the business is not profitable now. His following remarks are important, because he saw the latent existence of the crisis, when none of the others suspected it as yet.
V.XXXIV.33

4494. "The prices in Mincing Lane keep up pretty well so far, but nothing is sold, one cannot sell anything at any price; one maintains himself at the nominal price."‘4495 He relates the following case: A

Frenchman sends to a broker in Mincing Lane commodities for 3,000 pounds sterling for sale at a certain price. The broker cannot make the price, the Frenchman cannot sell below his price. The commodities remain unsold, but the Frenchman needs money. The broker therefore makes him an advance of 1,000 pounds sterling in such a way, that the Frenchman draws a check of 1,000 pounds sterling for three months on the broker with his commodities for a security. At the end of the three months the bill becomes due, but the commodities are still unsold. The broker must then pay for the bill, and although he has security for 3,000 pounds sterling, he cannot raise them and gets into difficulties. In this way one drags down another.‘4496. "As for the heavy exports‘when the business is depressed in the home market, it calls for the necessarily a heavy export."‘4497. "Do you believe that the home consumption has decreased?"‘"Very considerably ‘quite enormously‘the small dealers are the best authority in this."‘ 4498. "Nevertheless the imports are very large; does not that indicate a strong consumption?"‘"Yes, if you can sell; but many warehouses are full of these things; in the example, which I have just related, 3,000 pounds sterling worth of commodities have been imported, which are unsalable."
V.XXXIV.34

4514. "If money is dear, would you say that capital is then cheap?"‘"Yes, sir."‘This man, then, is by no means of Overstone's opinion that a high rate of interest is the same as dear capital.

V.XXXIV.35

The following shows how the business is carried on now.‘
4516...."Others go in very heavily, do an enormous business in exports and imports, far beyond the limit to which their capital entitles them; there cannot be the least doubt about this. These people may be lucky in this; they may make great fortunes by some lucky stroke and pay up everything. This is in a large measure the system, by which nowadays a considerable portion of the business is carried on. Such people are willing to lose 20, 30 and 40% on a shipment; the next transaction may bring it back to them. If they fail in one thing after another, they are gone; and that is precisely the case which we have seen often enough of late; business firms have failed, without leaving one shilling's worth of assets."
V.XXXIV.36

4791. "The low rate of interest [during the last ten years] militates indeed against the bankers, but without laying the business books before you, I should have much difficulty in explaining to you, how much higher the profit [his own] is now than formerly. When the rate of interest is low, in consequence of excessive issues of notes, we have considerable deposits; when the rate of interest is high, it brings us direct profits."‘4794. "When money may be had at a moderate rate of interest, we have more demand for it; we loan more; it works

this way [for us, the bankers]. When it rises, we get more for it than when it is cheap; we get more than we ought to have."
V.XXXIV.37

We have seen that the credit of the notes of the Bank of England is considered impregnable by all experts. Nevertheless the Bank Act absolutely ties up nine to ten millions in gold for the convertibility of these notes. The sacredness and inviolability of this reserve is here carried much farther than among the hoard makers of olden times. Mr. Brown (Liverpool) testifies, C. D. 1848-57, 2311: "Concerning the good derived at that time from this money [the metal reserve in the issue department], it might just as well have been thrown into the sea; for not the least bit of it could be used, without breaking the Act of Parliament."
V.XXXIV.38

The building contractor, E. Capps, the same one who has been mentioned once before, and whose testimony is borrowed also to illustrate the modern building system in London (Volume II, chapter XII, pages 266 and 267), sums up his opinion of the Bank Act of 1844 in the following way (B. A. 1857): 5508. "You are, then, in general of the opinion that the present system [of bank legislation] is a very apt institution for bringing the profits of industry periodically into the money bag of the usurer?"‘"That is my opinion. I know that it has worked that way in the building business."

V.XXXIV.39

We have already mentioned that the Scotch banks were pushed by the Bank Act of 1845 into a system approaching the English. They were placed under the obligation to hold gold in reserve for their issue of notes beyond a limit fixed for each bank. What the effect of this was, may be seen from the following testimony before the Bank Committee, 1857.

V.XXXIV.40

Kennedy, Director of a Scotch bank: 3375. "Was there anything in Scotland that might be called a circulation of gold, before the introduction of the Act of 1845?"‘"Nothing of the kind."‘3376. "Has an additional circulation of gold ensued since then?"‘"Not in the least; the people dislike gold."‘3450. "The sum of about 900,000 pounds sterling in gold, which the Scotch banks must keep since 1845, are in my opinion merely injurious and "absorb unprofitably an equal portion of the capital of Scotland."

V.XXXIV.41

Furthermore Anderson, Director of the Union Bank of Scotland: 3558. "The only heavy demand for gold made on the part of the Scotch banks upon the Bank of England occurred on account of the foreign rates of exchange?"‘"That is so; and this demand is not reduced by the fact that we keep gold in Edinburgh."‘3590. "So long as we

deposited the same amount of securities in the Bank of England" [or in the private banks of England] "we have the same power as before to create a drain of gold from the Bank of England."
V.XXXIV.42

Finally we quote an article from the "Economist" (Wilson): "The Scotch banks keep unemployed amounts of cash with their London agents; these keep them in the Bank of England. This gives to the Scotch banks, within the limits of these amounts, command over the metal reserve of the bank, and here it is always in the place where it is needed, when foreign payments are to be made."‘This system was disturbed by the Act of 1845: "In consequence of the act of 1845 for Scotland a strong outpour of gold coin from the Bank of England has taken place lately, in order to meet a mere possible demand in Scotland, which would probably never occur.‘Since that time a considerable amount finds itself tied up regularly in Scotland, and another considerable amount is continually under way between London and Scotland. If a time comes when a Scotch banker expects an increased demand for his notes, a box of gold is sent on from London; if this time is past, the same box goes back to London, generally without having been opened." (Economist, October 23, 1847.)
V.XXXIV.43

[And what does the father of the Bank Act, Banker Samuel Jones Loyd, alias Lord Overstone, say to all this?

He repeated even in 1848 before the Lords' Committee on C. D. that "a money stringency and a high rate of interest, caused by a lack of sufficient capital, cannot be relieved by an increased issue of bank notes" (1514), in spite of the fact that the mere permission to increase the issue of notes, given by the government letter of October 25, 1847, had sufficed to break the point of the crisis.

He sticks to the idea that "the high rate of interest and the depressed condition of the manufacturing industry was the necessary consequence of the reduction of the material capital available for industrial and commercial purposes" (1604). And yet the depressed condition of the manufacturing industry had for months consisted in the fact that the material commodity-capital was filling the warehouses to overflowing and was almost unsalable; so that for this reason the material productive capital was wholly or partly fallow, in order not to produce still more unsalable commodity-capital.

And before the Bank Committee of 1857 he said: By a strict and prompt adherence to the principles of the Act of 1844 everything has passed off with regularity and ease, the money system is secure and unshaken, the prosperity of the country is undisputed, the public confidence in the Act of 1844 is daily gaining in strength. If this Committee desires still further practical proofs of the soundness of the principles on which this act rests, and of the beneficent consequences which it has guaranteed, then the true and sufficient answer is this:

Look about you; consider the present condition of the business of this country; consider the satisfaction of the people; consider the wealth and prosperity of all classes of society; and then, after you have seen all this, this Committee will be able to decide, whether it will prevent a continuation of an Act, under which such success has been obtained." (B. C. 1857, No. 4189.)

To this song of praise, which Overstone emitted before the Committee on July 14, replied the song of defiance on November 12, of the same year, in the shape of the letter to the management of the Bank, in which the government suspended the miracle-working law of 1844, in order to save what could still be saved.‘F. E.]

Notes for this chapter

105.
Karl Marx, A Contribution to the Critique of Political Economy, Berlin, 1859, pages 236 and following.

Part V,

Volume III Chapter XXXV PRECIOUS METALS AND RATES OF EXCHANGE.

I. The Movements of the Gold Reserve.

V.XXXV.1

CONCERNING the hoarding of notes in times of stringency we remark, that in such cases the hoarding of precious metals is repeated, which used to be resorted to in restless times during the most primitive conditions of society. The Act of 1844 is interesting in its effects for the reason that it seeks to transform all the precious metals existing in a certain country into currency; it seeks to identify a discharge of gold with a contraction of the currency and an incoming flood of gold with an expansion of the currency. And so it happened that the experiment proved the contrary. With one sole exception, which we shall mention immediately, the quantity of the circulating notes of the Bank of England never reached the maximum, since 1844, which it was authorized to issue. And the crisis of 1857 proved, on the other hand, that this maximum does not suffice under certain circumstances. From November 13, to 30, 1857, a daily average of 488,830 pounds sterling circulated above this maximum (B. A. 1858, p. XI). The legal maximum was at that time 14,475,000 pounds sterling plus the amount of the metal reserve in the vaults of the bank.
V.XXXV.2

Concerning the outgoing and incoming tide of precious metals the following remarks are made:
V.XXXV.3

1) A distinction should be made between the back and forth movements of the metal within the districts which do not produce any gold and silver, and on the other hand, between the flow of gold and silver from their sources of production to the different other countries and the distribution of this additional metal among these other countries.
V.XXXV.4

Before the gold mines of Russia, California and Australia exerted their influence, the supply since the beginning of the nineteenth century sufficed only to replace the wornout coins, to satisfy the demand for articles of luxury, and to promote the exports of silver to Asia.
V.XXXV.5

However, the silver exports of Asia increased extraordinarily since that time, owing to the Asiatic trade with America and Europe. The silver exported from Europe was largely replaced by the additional supply of gold. In the second place, a portion of the newly imported gold was absorbed by the internal money-circulation. It is estimated that up to 1857 about 30 millions in gold were added to the internal circulation of England.*106 Furthermore, the average volume of the metal reserves in all central banks of Europe and America increased since 1844. The increase of the inland money circulation also carried with it the circumstance, that in the period of stagnation following upon the

panic the bank reserves grew more rapidly than before in consequence of the larger quantity of gold coins thrown out of inland circulation and held in a state of rest. Finally the consumption of precious metals for articles of luxury increased since the discovery of new gold deposits in consequence of the growing wealth.
V.XXXV.6

2) Between the countries that do not produce any gold and silver, precious metals flow back and forth; the same country continually imports some, and just as continually exports some. It is only the predominance of this movement in one direction or the other which decides whether there is in the last instance a drain or an addition, since the merely oscillating and frequently parallel movements largely neutralise one another. But for this reason, so far as this result is concerned, the continuity and the mainly parallel course of both movements is overlooked. It is always assumed that a plus in the imports or a plus in the exports of precious metals appears only as an effect and concomitant of the proportion between the imports and exports of commodities, whereas they are at the same time an expression of the proportion between the exports and imports of precious metals themselves, independent of the trade of commodities.
V.XXXV.7

3) The predominance of the imports over the exports, and vice versa, is measured on the whole by the increase or decrease of the metal

reserve in the central banks. To what extent this scale of measurement is more or less exact, depends, of course, primarily on the degree to which the banking business in general is centralised. For on this premise turns the question, to what extent the precious metal hoarded in the so-called national banks represents the national metal reserve at all. But assuming this to be the case, the scale of measurement is not exact, because an additional import may be absorbed under certain circumstances by the inland circulation and the growing consumption of gold and silver in the making of articles of luxury; furthermore, because without an additional import a withdrawal of gold coin for inland circulation may take place and thus the metal reserve may decrease, even without a simultaneous increase of the export.
V.XXXV.8

4) An export of metals assumes the aspect of a drain, when the movement continues for a long time, so that the decrease represents the tendency of the movement and depresses the metal reserve of the bank considerably below its average level, down to about its average minimum. This minimum is in so far more or less arbitrarily fixed, as it is differently determined in every individual case by the legislation concerning the backing of notes, etc., by cash. Concerning the quantitative limits, which such a drain may reach in England, Newmarch testified before the Committee on B. A., 1857, Evidence No. 1494: "To judge by experience, it is very unlikely that the drain

of metal as a result of some fluctuation in the foreign business will exceed three or four million pounds sterling."'In 1847 the lowest level of the gold reserve of the Bank of England, on October 23, showed a minus of 5,198,156 pounds sterling as compared to that of December 26, 1846, and a minus of 6,453,748 pounds sterling as compared to the highest level on August 29, 1846.
V.XXXV.9

5) The functions of the metal reserve of the so-called national banks, which functions, however, do not by themselves regulate the magnitude of this reserve, for it may grow through a mere paralisation of internal commerce, are threefold: 1) It is a reserve fund for international payments, in one word a reserve fund of world money; 2) it is a reserve fund for the alternately expanding and contracting metal circulation of the inland markets; 3) it is a reserve fund for the payment of deposits and for the convertibility of notes, and this part of its function is connected with the function of the bank and has nothing to do with the functions of money as mere money. It may, therefore, also be touched by conditions, which affect every one of these three functions. As an international fund it, may be touched by the balance of payment, no matter by what causes this may be determined, and whatever may be its proportion to the balance of trade. As a reserve fund for the metal circulation of the inland market it may be touched by its expansion or contraction. The third function, that of a fund guaranteeing the convertibility of the

notes, while it does not determine the independent movements of the metal reserve, has a double effect. If notes are issued, which replace the metallic money in the inland circulation (which may also consist of silver in countries where silver is a measure of value), then the second function of the reserve fund is eliminated. And a portion of the precious metal, which performed its function, will permanently wander into foreign countries. In this case no withdrawal of metallic money for inland circulation takes place, and this does away at the same time with the temporary augmentation of the metal reserve by the immobilised part of the circulating metal coin. Furthermore, if a minimum of a metal reserve must be kept under all circumstances, it affects in a peculiar way the results of a drain or an addition of gold; it affects that part of the reserve, which the bank is compelled to maintain under all circumstances, or that part, which it seeks to get rid of as useless at a certain time. If the circulation were purely metallic and the banking system concentrated, the bank would have to consider its metal reserve likewise as a security for the payment of its deposits, and a drain of metal might then cause such a panic as was witnessed in Hamburg in 1857.
V.XXXV.10

6) With the exception of 1837, the real crisis broke out always after the rates of exchange had been altered, that is, as soon as the import of precious metal had increased over the export.
V.XXXV.11

In 1825 the real crash came after the drain of gold had ceased. In 1839 a drain of gold took place without bringing a crash. In 1847 the drain of gold ceased in April and the crash came in October. In 1857 the drain of gold to foreign countries had ceased since the beginning of November, and the crash did not come until later in November.
V.XXXV.12

This stands out particularly in the crisis of 1847, when the drain of gold ceased already in April, after causing a slight preliminary crisis, and the real business crisis did not come until October.
V.XXXV.13

The following evidence was given before the Secret Committee of the House of Lords on Commercial Distress, 1848. This evidence was not printed until 1857 (also quoted as C. D. 1848-57).
V.XXXV.14

Evidence of Tooke. In April, 1847, a stringency arose, which strictly speaking equalled a panic, but was of relatively short duration and not accompanied by any commercial failures of importance. In October the stringency was far more intensive than at any time during April, an almost unheard of number of commercial failures taking place (2196).‘ In April the rates of exchange, particularly with America, compelled us to export a considerable amount of gold in payment for unusually

large imports; only by an extreme effort did the bank stop the drain and drive the rates higher (2197).‘In October the rates of exchange favored England (2198).‘The change in the rates of exchange had begun in the third week of April (3000).‘They fluctuated in July and August; since the beginning of August they always favored England (3001).‘The drain of gold in August arose from a demand for internal circulation.
V.XXXV.15

J. Morris, Governor of the Bank of England: Although the rate of exchange favored England since August, 1847, and an import of gold had taken place in consequence, the metal reserve of the bank decreased nevertheless. "2,200,000 pounds sterling went out to the country, as a result of inland demand." (137)‘This is explained on the one hand by an increased employment of laborers in railroad construction, on the other by a "desire of the bankers to possess their own gold reserve in times of crisis." (147.)
V.XXXV.16

Palmer, Ex-Governor and since 1811 a Director of the Bank of England: 684. "During the entire period from the middle of April, 1847 to the day of the suspension of the Bank Act of 1844 the rates of exchange were in favor of England."
V.XXXV.17

The drain of metal, which created in April, 1847, an independent money panic, was here, as always, but a precursor of the crisis and had already been turned back, when the crisis broke out. In 1839 a heavy drain of metal took place, for corn, etc., while the business was strongly depressed, but without any crisis and money panic.
V.XXXV.18

7) As soon as the universal crises have spent themselves, the gold and silver, aside from an addition of new precious metals from the sources of production, distributes itself once more in such proportions as it showed in the form of the individual reserve of the various countries in a condition of equilibrium. Other circumstances remaining the same, its relative magnitude in every country will be determined by the role of that country in the world market. It flows away from the country which had more than its normal portion into some other country. These movements of outgoing and incoming metal restore merely its original distribution among the various national reserves. This redistribution, however, is brought about by the effects of different circumstances, which will be mentioned in our treatment of rates of exchange. As soon as the normal distribution is once more a fact, a stage of growth follows first, and then again a drain. [This last sentence applies, of course, only to England, as the center of the world's money market.‘F.E.]
V.XXXV.19

8) The drains of metal are generally a symptom of a change in the condition of foreign commerce, and this change in its turn is a premonition that conditions are approaching a crisis.*107
V.XXXV.20

9) The balance of payment may favor Asia against Europe and America.*108
V.XXXV.21

An import of precious metals takes place to a point of predominance in two phases. On the one hand it takes place in the first phase of a low rate of interest, which follows upon a crisis and expresses a restriction of production; and then in the second phase, in which the rate of interest rises, without, however, attaining its medium level. This is the phase, in which returns come easy, commercial profit is large, and therefore the demand for loan capital does not grow in proportion to the expansion of production. In both phases, in which loan capital is relatively abundant, the superfluous addition of capital existing in the form of gold and silver, a form in which it can primarily serve only as loan capital, must seriously affect the rate of interest and with it the tone of the whole business.
V.XXXV.22

On the other hand, a drain, a continued and heavy outpour of precious metals, takes place as soon as the returns are no longer

easy, the markets overstocked, and the seeming prosperity held up only by credit; in other words, as soon as a very much increased demand for loan capital exists and the rate of interest has, for this reason, reached at least its medium level. Under these circumstances, which are reflected by the drain of precious metals, the effect of the continued withdrawal of capital in a form, in which it is directly loanable money-capital, is considerably intensified. This must have a direct influence on the rate of interest. But instead of restricting the credit business, the rise of the rate of interest extends it and leads to an overstraining of all its resources. This period, therefore, precedes the crash.
V.XXXV.23

Newmarch is asked, B. A. 1857, No. 1520: "The amount of the circulating bills of exchange, then, rises with the rate of interest?"‘"It seems so."‘1522. "In quiet, ordinary times the ledger is the actual instrument of exchange; but when difficulties arise, for instance, if the discount rate of the Bank is raised under circumstances such as I have mentioned...then the transactions resolve themselves quite of their own account into the drawing of bills; these bills are not only better suited to serve as a legal evidence of the making of some business transaction, but they are also better adapted to the purpose of making other purchases, and they are above all useful as a means of credit for taking up capital."‘This is further intensified by the fact that as soon as signs of threatening conditions induce the bank to

raise its rate of discount, which implies the possibility that the bank may at the same time cut down the running time of the bills to be discounted by it, the general apprehension is spread, that this will grow worse. Every one, and first of all the credit swindler, will therefore strive to discount the future and have as many means of credit as possible at his command when the critical time comes. The above-mentioned reasons, then, amount in fact to this, that it is not the mere quantity of the imported or exported precious metals which exerts its influence in this capacity but that this quantity works its effect, first, by the specific character of precious metals of being capital in the form of money, and secondly, that it works like a feather, which, added to the weight on the scales, suffice to incline the occillating balance definitely to one side, that is, it works this effect, because it arises under conditions, when a little excess decides in favor of one side or the other. Without these reasons it would be quite inexplicable, why a drain of gold amounting to about five or eight million pounds sterling, and this is the limit according to present experience, should be able to exert any considerable influence. This small minus or plus of capital, which seems insignificant even compared to the 70 million pounds in gold which circulate on an average in England, is a vanishing magnitude in a production of such volume as the English.*109

V.XXXV.24

But it is just the development of the credit and banking business, which tends on the one hand to press all money-capital into the service of production (or what amounts to the same, to convert all money incomes into capital), and which on the other hand reduces the metal reserve to a minimum in a certain phase of the cycle, so that it can no longer perform the functions for which it is intended. It is the developed credit and banking system, which creates this oversensitiveness of the whole organism of the reserve below or above its average level is a relatively insignificant matter. On the other hand, even a very considerable drain of gold is relatively ineffective, unless it arises in the critical period of the industrial cycle.
V.XXXV.25

In this explanation we have not considered the cases, in which a drain of gold takes place as a result of crop failures, etc. In this case the great and sudden disturbance of the equilibrium of production, whose expression this drain is, requires no further explanation of its effects. These effects are so much greater, the more such a disturbance begins in a period, in which production works under high pressure.
V.XXXV.26

We have also left out of consideration the function of the metal reserve as a security for the convertibility of the bank notes and as the cardinal point of the credit system. The central bank is the pivot

of the credit system. And the metal reserve in its turn is the pivot of the bank.*110

V.XXXV.27

The transition from the credit system to the monetary system is necessary, as I have already shown in Volume I, chapter III, under the head of "Means of Payment." That the greatest sacrifices of real wealth are necessary, in order to maintain the metallic basis in a critical moment, has been admitted by both Tooke and Loyd-Overstone. The controversy turns merely around a plus or minus, and around the more or less rational treatment of the inevitable.*111 A certain quantity of metal, insignificant compared with the total production, is admitted to be the pivotal point of the system. Hence its beautiful theoretical dualism, aside from the appalling demonstration of this character in its capacity as the pivotal point of crises. So long as enlightened bourgeois economy treats of "Capital" in its official capacity, it looks down upon gold and silver with the greatest disdain, considering them as the most immaterial and useless forms of wealth. But as soon as it treats of the banking system, everything is reversed, and gold and silver become capital par excellence, for whose preservation every other form of capital and labor is to be sacrificed. But how are gold and silver distinguished from other forms of wealth? Not by the magnitude of their value, for this is determined by the quantity of labor materialised in them; but by the fact that they represent independent incarnations, expressions of the social character

of wealth. [The wealth of society exists only as the wealth of private individuals, who are its owners. It shows its social capacity only in the fact that these individuals exchange the qualitatively different use-values mutually for the satisfaction of their wants. Under the capitalist production they can do so only by means of money. Thus the wealth of the individual is realised as a social wealth only by means of money. In money, in this thing, the social nature of this wealth is incarnated.‘F. E.] This social existence assumes the aspect of a world beyond, of a thing, matter, commodity, by the side of and outside of the real elements of social wealth. So long as production is in a state of flux, this is forgotten. Credit, likewise, in its capacity as a social form of wealth, crowds money out and usurps its place. It is the faith in the social character of production, which gives to the money-form of products the aspect of something disappearing and ideal. But as soon as credit is shaken‘and this phase always appears of necessity in the cycles of modern industry‘all the real wealth is to be actually and suddenly transformed into money, into gold and silver, a crazy demand, which, however, necessarily grows out of the system itself. And all the gold and silver, which is supposed to satisfy these enormous demands, amounts to a few millions in the cellars of the Bank.*112
V.XXXV.28

In the effects of the gold drains, then, the fact that production as a social process is not subject to social control is strikingly emphasized

by the existence of the social form of wealth outside out of it as a separate thing. The capitalist system of production, it is true, shares this with former systems of production, so far as they rest on the trade with commodities and private exchange. But only in it does this become apparent in the most striking and grotesque form of the most absurd contradiction and nonsense, because, in the first place, production for the direct use of the producers is most completely abolished under the capitalist system, so that wealth exists only as a social process expressed by the interrelations of production and circulation; and in the second place, because capitalist production forever strives to overcome this metallic barrier, the material and phantastic barrier of wealth and its movements, in proportion as the credit system develops, but forever breaks its head on this same barrier.

V.XXXV.29

In the crisis the demand is made, that all bills of exchange, securities, and commodities shall be simultaneously convertible into bank money, and this whole bank money consists of gold.

II. The Rate of Exchange.

V.XXXV.30

[The barometer for the international movement of the money metals is the rate of exchange. If England has more payments to make to Germany than Germany to England, the price of marks, expressed in sterling, rises in London, and the price of sterling, expressed in marks, falls in Hamburg and Berlin. If this overbalance of monetary obligations of England toward Germany is not equalised, for instance, by over purchases of Germany in England, the sterling price for marks on bills of exchange on Germany must rise to a point, where it will pay to send metal (gold coin or bullion) from England to Germany in payment of obligations, instead of sending bills of exchange. This is the typical course of things.

If this export of precious metals assumes a larger scope and lasts longer, then the English bank reserve is touched, and the English money market, with the bank of England at the head, must take precautionary measures. These consist mainly, as we have already seen, in the raising of the rate of interest. When the drain of gold is considerable, the money market is always difficult, that is, the demand for loan capital in the form of money exceeds the supply by far, and the raising of the rate of interest follows quite naturally from this; the rate of discount fixed by the Bank of England corresponds to this condition and asserts itself on the market. However, there are cases, when the drain of metal is due to other than the ordinary combinations of business (for instance, to loans of foreign states, investment of capital in foreign countries, etc.), when the London money market in that respect does not justify such an effective raise

of the rate of interest; in that case the Bank of England must first make money "scarce" by heavy loans in the "open market" and thus create artificially a condition, which justifies a raise of the rate of interest, or renders it necessary; a maneuver, which becomes from year to year more difficult for it.‘F. E.]

V.XXXV.31

How this raising of the rate of interest affects the rates of exchange, is shown by the following testimony before the Committee of the Lower House concerning bank legislation in 1857 (quoted as B. A., or B. C., 1857.)
V.XXXV.32

John Stuart Mill: 2176. "When the business has become difficult...a considerable fall in the price of securities takes place...foreigners order the buying of railroad shares here in England, or English owners of foreign railroad shares sell them to foreign countries...to that extent the transfer of gold is avoided."‘2182. "A large and rich class of bankers and dealers in securities, by whom the equalisation of the rate of interest and the equalisation of the commercial barometric pressure between the different countries is generally accomplished...is always on the lookout for the purchase of securities, which promise a rise in price...the proper place to buy them will be the country which

sends gold abroad."‘2183. "These investments of capital took place to a large extent in 1847, enough to reduce the drain of gold." V.XXXV.33

J. G. Hubbard, Ex-Governor, and since 1838 a Director of the Bank of England: 2545. "There are a large number of European securities...which have a European circulation in all the various money markets, and these papers, as soon as they fall by one or two per cent. in one market, are at once brought up in order to be transferred to markets, where their value has still maintained itself."‘ 2565. "Are not foreign countries considerably in debt to merchants in England?"‘..."Very considerably."‘2566. "The collection of these debts might, therefore, suffice by itself to explain a very large accumulation of capital in England?"‘"In the year 1847 our position was finally restored by our drawing a line through so and so many millions, which America and Russia formerly owed to England." [England owed these same countries at the same time "so and so many millions" for corn and did not forget to "draw a line" also through the greater portion of these by the bankruptcy of the English debtors. See the report on Bank Acts, 1857, in chapter XXX of this work.]‘2572. "In 1847 the rate of exchange between England and Petersburg stood very high. When the government letter was issued, which authorized the Bank of England to issue bank notes without adhering to the legally prescribed limit of 14 millions [beyond the gold reserve], the condition was that the discount should be kept at 8%. At that

moment, and at that rate of discount, it was a profitable business to have gold shipped from Petersburg to London and to lend it out after its arrival at 8% until the three months' bills of exchange should become due, which had been drawn against the sold gold."‘2573. "In all operations with gold many points must be taken into consideration; it depends on the rate of exchange and on the rate of interest, at which money may be invested until the bills drawn against it become due."

III. Rate of Exchange with Asia.

V.XXXV.34

The following points are important, partly because they show that England must take refuge to other countries, when its rate of exchange with Asia is unfavorable. These are countries, whose imports from Asia are paid by way of England. On the other part they are important, because Mr. Wilson makes once more the silly attempt here, to identify the effect of an export of precious metal on the rates of exchange with the effect of an export of capital in general upon these rates; the export being in either case not for the purpose of paying or buying, but of investing capital. In the first place it goes without saying, that whether so and so many millions of pounds sterling are sent to India in precious metals or railroad rails, in order to be invested in railroads there, these are merely two different forms

of transferring the same amount of capital to another country. And this is a form of transfer, which does not enter into accounts of the ordinary mercantile businesses, and for which the exporting country expects no other returns than later on the annual revenue from the income of these railroads. If this export is made in the form of precious metal, it will exert a direct influence upon the money market and with it upon the rate of interest of the country exporting this precious metal, at least under the previously outlined conditions, if not necessarily under all circumstances, since precious metal is directly loanable money-capital and the basis of the entire money-system. This export also affects directly the rate of exchange. For precious metal is exported only for the reason and to the extent that the bills of exchange, say, on India, which are offered in the London money market, do not suffice for the making of these extra payments. In other words, there is a demand for Indian bills of exchange which exceeds their supply, and so the rates turn for a time against England, not because it is in debt to India, but because it has to send extraordinary sums to India. In the long run such a shipment of precious metal to India must have the effect of increasing the Indian demand for British goods, because it indirectly increases the consuming power of India for European goods. But if the capital is shipped in the shape of rails, etc., it cannot have any influence on the rates of exchange, since India has no return payment to make for it. For the same reason this need not have any influence on the money market. Wilson seeks to establish the fact of such an influence

by declaring that such an extra expenditure will bring about an extra demand for money accommodation and will thus influence the rate of interest. This may be the case; but to maintain that it must take place under all circumstances is totally wrong. No matter whether the rails are shipped and laid on English or Indian soil, they represent nothing else but a definite expansion of English production in a definite sphere. To contend that an expansion of production, even to a large volume, cannot take place without driving the rate of interest higher, is absurd. The money accommodation may grow, that is, the amount of business transacted by operations of credit; but these operations may increase also while the rate of interest remains unchanged. This was actually the case during the railroad mania in England during the forties. The rate of interest did not rise. And it is evident, that, so far as actual capital, in this case commodities, are concerned, the effect on the money market will be just the same, whether these commodities are intended for foreign countries or for inland consumption. A difference could be discovered only in the case that the investment of capital on the part of England in foreign countries would have a restraining influence upon its commercial exports, that is, exports for which payment must be made in return, or to the extent that these investments of capital are general symptoms indicating the overstraining of credit and the beginning of swindling operations.

V.XXXV.35

In the following Wilson asks questions and Newmarch answers them. V.XXXV.36

1786. "You said before, with reference to the silver demand for Eastern Asia, that in your opinion the rates of exchange with India are in favor of England, in spite of the considerable wealth of metal continually sent to Eastern Asia; have you any reasons for this?"‘" To be sure....I find that the actual value of the exports of the United Kingdom to India amounted to 7,420,000 pounds sterling in 1851; to this must be added the amount of the bills of exchange of the India House, that is, the funds which the East Indian Company draws from India for the payment of its own expenses. These drafts amounted in that year to 3,200,000 pounds sterling; so that the total exports of the United Kingdom to India amounted to 10,620,000 pounds sterling. In 1855 the actual value of the exports of commodities had risen to 10,350,000 pounds sterling; the drafts of the India House were 3,700,000 pounds sterling; the total exports therefore 14,050,000 pounds sterling. For 1851, I believe, we have no means of ascertaining the actual value of the imports of commodities from India to England; but we have for 1854 and 1855. In 1855 the entire actual value of these imports of commodities from India to England was 12,670,000 pounds sterling and this sum, compared to the 14,050,000 pounds sterling, leaves a balance in favor of England, in the direct commerce between the two countries, amounting to 1,380,000 pounds sterling."

V.XXXV.37

Thereupon Wilson remarks that the rates of exchange are also touched by the indirect commerce. For instance, the exports from India to Australia and North America are covered by drafts on London, and therefore affect the rate of exchange quite in the same way as though the commodities had gone directly from India to England. Furthermore, when India and China are taken together, the balance is against England, since China has continually heavy payments to make to India for opium, and England has to make payment to China, and the amounts go by this circuitous route to India. (1787, 1788.)
V.XXXV.38

1789. Wilson asks now, whether the effect on the rates of exchange will not be the same, no matter whether the capital goes out in the form of iron rails or locomotives, or in the form of metal coin. Newmarch gives the correct answer: The 12 million pounds sterling, which have been sent during the last years to India for railroad construction served to buy an annual income, which India has to pay at regular terms to England. So far as any immediate effect on the precious metal market is concerned, the investment of 12 million pounds sterling can exert any influence only to the extent that metal had to be sent out for an actual investment in money.
V.XXXV.39

1797. Weguelin asks: "If no returns are made for these rails, how can it be said that they affect the rate of exchange?"‘"I do not believe that that portion of the expenditure, which is sent abroad in the form of commodities, affects the stand of the rates of exchange...the stand of the rates between two countries is, one may say exclusively, affected by the quantity of the obligations or bills of exchange offered in opposition to them in another country; that is the rational theory of the rate of exchange. As for the shipment of those 12 millions, they were in the first place subscribed here; now, if the business were such, that these entire 12 millions would be deposited in cash in Calcutta, Bombay and Madras...this sudden demand would strongly affect the price of silver, just as would be the case if the East India Company were to announce tomorrow, that it would increase its drafts from 3 millions to 12 millions. But one-half of these 12 millions is invested...in the purchase of commodities in England...iron rails and lumber and other materials...it is an investment of English capital, in England itself, for a certain kind of commodities to be shipped to India, and that ends the matter."‘1798. Weguelin: "But the production of these commodities of iron and wood required for the railroads produces a heavy consumption of foreign commodities, and this could affect the rate of interest, could it not?"‘"Assuredly."
V.XXXV.40

Wilson thinks now, that iron largely represents labor, and that the wages paid for this labor largely represent imported goods (1799), and then he asks further:
V.XXXV.41

1801. "But speaking quite generally: If the commodities, which have been produced by means of the consumption of these imported commodities, are sent out in such a way, that we do not receive any returns for them, either in products or otherwise, would not that have the effect of making the rates of exchange unfavorable for us?"‘"This principle is exactly what happened in England during the time of the great railway enterprises [1845]. For three or four years in succession you invested 30 million pounds sterling in railroads and almost the whole in wages. You have maintained during three years in the construction of railroads, locomotives, cars, stations, a greater number of people than in all factory districts together. These people…expended their wages in the purchase of tea, sugar, liquor and other foreign commodities; these commodities must be imported; but it is certain that during the time that this great investment was being made, the rates of exchange between England and other countries were not materially disturbed. No drain of precious metal took place, on the contrary, rather an addition."
V.XXXV.42

1802. Wilson insists that with a settled balance of trade and par rates between England and India the extra shipment of iron and locomotives "must affect the rate of exchange." Newmarch cannot see it that way, so long as the rails are sent out as an investment of capital and India has no payment to make for them in one form or another; he adds: "I agree with the principle that no country can in the long run have an unfavorable rate of exchange with all countries, with whom it deals; an unfavorable rate of exchange with one country necessarily produces a favorable one with another."‘Wilson retorts with this triviality: 1803. "But would not a transfer of capital be the same, whether the capital were sent in this form or that?"‘"So far as an indebtedness is concerned, yes."‘1804. "Then, whether you send out precious metal or commodities, the effect of railroad construction in India on the market of capital here would be the same and would increase the value of capital just as though the whole had been sent out in precious metal?"
V.XXXV.43

If the prices of iron did not rise, it was certainly a proof that the "value" of the "capital" contained in the rails had not been increased. What is wanted is the value of money-capital, of the rate of interest. Wilson would like to identify money-capital with capital in general. The simple fact is, primarily, that 12 millions for Indian railroads are subscribed in England. This is a matter which has nothing directly to do with the rates of exchange, and the destination of the 12 millions

is also immaterial for the money market. If the money market is in good condition, it need not produce any effect at all on it, just as the English railroad subscriptions in 1844 and 1845 left the money market untouched. If the money market is already somewhat difficult, then the rate of interest might indeed be affected by it, but certainly only in an upward direction, and this would have a favorable effect for England on the rates of exchange according to Wilson's theory, that is, it would work against the tendency to export precious metal; if not to India, then to some other country. Mr. Wilson jumps from one thing to another. In question 1802 the rates of exchange are supposed to be affected, in question 1804 the "value of capital," two very different things. The rate of interest may affect the rates of exchange, and the rates may affect the rate of interest, but the rate of interest may be stable while the rates of exchange fluctuate, and the rates of exchange may be stable while the rate of interest fluctuates. Wilson cannot understand, that the mere form, in which capital is shipped abroad, should make such a difference in the effect, that is, that the difference in the form of capital should have such an effect, not to mention its money form, which runs very much counter to the enlightened economy. Newmarch answers Wilson's question onesidedly inasmuch as he does not point out that he has jumped so suddenly and without reason from the rate of exchange to the rate of interest. Newmarch answers question 1804 uncertainly and doubtfully: "No doubt, if 12 millions are to be raised, it is immaterial, so far as the general rate of interest is concerned, whether these 12 millions

are to be sent out in precious metals or in materials. I believe, however" [a fine transition, this however, when he intends to say the exact opposite] "that this is not quite immaterial" [it is immaterial, but, however, it is not material] "because in the one case the six million pounds sterling would return immediately; in the other case they would not return so quickly. Therefore it would make some" [what definiteness!] "difference, whether the six millions were invested here at home or sent entirely abroad." What does he mean by saying that the six millions would return immediately? To the extent that the six million pounds sterling have been spent in England, they exist in rails, locomotives, etc., which are shipped to India, whence they do not return, and their value returns very slowly through a sinking fund, whereas six millions in precious metals may return very quickly in their natural form. To the extent that six millions have been spent in wages, they have been consumed; but the money, in which they were paid, circulates in the country the same as ever or forms a reserve. The same is true of the profits of the producers of iron rails and of that portion of the six millions which makes good their constant capital. This ambiguous phrase of the return of values is used by Newmarch only in order to avoid saying directly: The money has remained in the country, and so far as it serves as loanable money-capital the difference for the money-market (aside from the possibility that the circulation might have swallowed more hard cash) is only this, that it is spent for the account of A instead of B. An investment of this kind, where the capital is transferred to other countries in

commodities, not in precious metals, cannot affect the rate of exchange, unless the production of these exported commodities requires an extra-import of other foreign commodities, and this, at any rate, does not affect the rate of exchange with the country in which the exported capital is invested. This production is not intended to settle for this extra import. The same takes place in every export on credit, no matter whether it be intended for investment as capital or for ordinary purposes of commerce. Besides, such an extra import may also cause a reaction in the way of an extra demand for English goods, for instance, on the part of the colonies or of the United States.

V.XXXV.44

Before that Newmarch said that owing to the drafts of the East India Company the exports from England to India were larger than the imports. Sir Charles Wood cross-examines him on this score. This excess of the English exports to India over the imports from India is actually due to imports from India, for which England does not pay any equivalent. The drafts of the East India Company (now of the British government) resolve themselves into a tribute levied on India. For instance, in 1855 the imports from India to England amounted to 12,670,000 pounds sterling; the English exports to India amounted to 10,350,000 pounds sterling; balance in India's favor 2,250,000 pounds sterling. "If the matter were exhausted with this, then these 2,250,000

pounds sterling would have to be remitted to India in some form. But then come the invitations from the India House. The India House announces that it is in a position to issue drafts on the different presidencies in India to the amount of 3,250,000 pounds sterling. [This amount was levied for the London expenses of the East India Company and for the dividends due to the stockholders.] And this liquidates not merely the balance of 2,250,000 pounds sterling, which arose in a business way, but gives besides a surplus of one million." (1917.)
V.XXXV.45

1922. Wood: "Then the effect of these drafts of the India House is not to increase the exports to India, but to reduce them to that extent?" [He means to say to reduce the necessity of covering the imports from India by exports to India to the same amount.] Mr. Newmarch explains this by saying that the British export for these 3,700,000 pounds sterling a "good government" to India (1925). Wood, knowing very well the kind of "good government" exported to India by the British, having been Minister to India, replies correctly and ironically: 1926. "Then the exports, which, as you say, are caused by the India House drafts, are exports of good government, and not of commodities."‘Since England exports a good deal "in this way" in the shape of "good government" and for investment of capital in foreign countries, things which are quite independent of the ordinary run of business, tributes which consist either in payment for "good

government" or in revenues from capital invested in the colonies or elsewhere, tributes for which it does not have to pay any equivalent, it is evident, that the rates of exchange are not affected, when England simply consumes these tributes without making any exports in return for them. Hence it is also evident that the rates of exchange are not affected, when it reinvests these tributes, not in England, but productively or unproductively in foreign countries; for instance, when it sends ammunition to the Crimea with them. Moreover, to the extent that the imports from abroad pass into the revenue of England‘of course, they must first have been paid, either in the form of tributes for which no equivalent return is made, or by exchanging things for these tributes before they have been paid, or by the ordinary course of commerce‘England can either consume them or reinvest them as capital. Neither the one nor the other thing touches the rates of exchange, and this is what Wilson overlooks. Whether a domestic or a foreign product forms a part of the revenue‘and this last case requires merely an exchange of domestic for foreign products‘the consumption of this revenue, be it productive or unproductive, alters nothing in the rates of exchange, even though it may alter the scale of production. The following remarks should be judged by the foregoing explanation: V.XXXV.46

1934. Wood asks Newmarch, how the shipment of war supplies to the Crimea would affect the rates of exchange with Turkey. Newmarch replies: "I do not see, that the mere shipment of war supplies would

necessarily affect the rates of exchange, but the shipment of precious metals would surely affect these rates." In this case he distinguishes capital in the form of money from capital in other forms. But now Wilson asks:
V.XXXV.47

1935. "If you promote an export on a large scale of some article for which no corresponding import takes place, you do not pay the foreign debts, which you have contracted by your imports, and for this reason you must affect the rates of exchange by these transactions, since the foreign debts are not paid, because your export has no corresponding import.‘This is true of countries in general." [Mr. Wilson forgets, that there are very considerable imports into England, for which no corresponding exports have ever taken place, except in the form of "good government" or of formerly exported capital for investment; at any rate imports which do not pass into the regular commercial movement. But these imports are again exchanged, for instance, for American products, and the fact that American goods are exported without any corresponding imports does not alter the fact that the value of these imports may be consumed without any equivalent return abroad; they have been received without being balanced by any corresponding exports, and may also be used up without entering into the balance of trade. On the other hand, if these imports have already been paid by you, for instance, by credit given to foreign countries, then no debt is contracted through this,

and the question has nothing to do with the international balance; it resolves itself into productive and unproductive expenditures, no matter whether the products so used are domestic or foreign.] V.XXXV.48

This lecture of Wilson's amounts to saying that every export without a corresponding import is at the same time an import without a corresponding export, because foreign, hence imported, commodities enter into the production of the exported article. The assumption is that every export of this kind is based on some unpaid import, or creates it, resulting in a debt to a foreign country. This is wrong, even aside from the two following circumstances. 1) England receives imports free of charge, for which it pays no equivalent, such as a portion of its Indian imports. It may exchange these for American imports, and may export the latter without any imports to counterbalance them; but at any rate, so far as this value is concerned, it has only exported something that did not cost it anything. 2) England may have paid for imports, for instance American imports, which form additional capital; if it consumes these unproductively, for instance, using them as war materials, this does not constitute any debt towards America and does not affect the rates of exchange with America. Newmarch contradicts himself in numbers 1934 and 1935, and Wood calls his attention to this, in number 1938: "If no portion of the commodities employed in the manufacture of articles, which we export without receiving any returns [war

materials], comes from the country into which these articles are sent, how does that touch the rate of exchange with that country? Suppose that commerce with Turkey is in the ordinary condition of equilibrium; how is the rate of exchange between us and Turkey affected by the export of war materials to the Crimea?"'Here Newmarch loses his equanimity; he forgets that he has answered the same simple question correctly in No. 1934, and says: "We have, it seems to me, exhausted the practical question, and we are now getting into a very high region of metaphysical discussion."

V.XXXV.49

[Wilson has still another version of his claim, that the rate of exchange is affected by every transfer of capital from one country to another, no matter whether this takes place in the form of precious metals or of commodities. Wilson knows, of course, that the rate of exchange is affected by the rate of interest, particularly by the relation of the rates of interest current in any two countries whose rates of exchange are under discussion. If he can now demonstrate that any surplus of capital, and in the first place commodities of all kinds, including precious metals, contribute their share to influencing the rate of interest, then he makes a step nearer to his goal; a transfer of any considerable portion of this capital to some other country must then change the rate of interest in both countries, in opposite

directions, and this must alter in a secondary way the rate of exchange between both countries.‘F. E.]

V.XXXV.50

He says, then, in the "Economist," 1847, page 475, which he edited at that time:

1) "It is evident, that such a surplus of capital, indicated by large supplies of all kinds, including precious metals, must lead necessarily, not only to lower prices of commodities in general, but to a lower rate of interest for the use of capital."

2) "If we have a stock of commodities on hand, large enough to supply the country for the coming two years, then a command of these commodities for a given period may be had at a much lower rate than if it would last only for two months."

3) All loans of money, in whatever form they may be made, are merely transfers of the command over commodities from one to another. If, therefore, commodities are superabundant, then the money interest must be low, if they are scarce, it must be high."

4) "If commodities come in more abundantly, the number of sellers compared to the number of buyers must increase, and in proportion as the quantity exceeds the needs of the direct consumers, an ever larger portion must be stored up for later use. Under these circumstances an owner of commodities will sell at lower conditions on

future payment, or on credit, than he would if he were sure that his whole stock would be sold within a few weeks."

V.XXXV.51

Our comment on sentence No. I, is that a strong addition to the precious metals may be made while production is simultaneously contracted, which is always the case in the period after a crisis. In the subsequent phase precious metals may come in from countries that produce above all precious metals; the imports of other commodities are generally balanced by the exports during this period. In these two phases the rate of interest is low and rises but slowly; we have already explained the reason for this. This low rate of interest may be explained everywhere without any influence of any "Large supplies of any kind." And how is this influence to take place? The low price of cotton, for instance, renders possible the high profits of the spinners, etc. Now why is the rate of interest low? Surely not, because the profit, which may be made on borrowed capital, is high. But simply and solely, because under existing conditions the demand for loan capital does not grow in proportion to this profit; in other words, because loan capital has a different movement than industrial capital. What the "Economist" wants to prove is exactly the reverse, namely that the movements of loan capital are identical with those of industrial capital.

V.XXXV.52

Comment on sentence No. 2). If we reduce the absurd assumption of a stock for two years ahead to a point where it begins to take on some meaning, it signifies that the markets are overstocked. This would cause a falling of prices. Less would have to be paid for a bale of cotton. This would by no means justify the conclusion, that the money which is to be used for the payment of this cotton, is more easily borrowed. For this depends on the condition of the money market. If money can be borrowed more easily, it can be so only because the commercial credit is in such shape, that it has to make less use of bank credit than ordinarily. The commodities overcrowding the market are means of subsistence or means of production. The low price of both increases in this case the profit of the industrial capitalist. Why should these low prices depress the rate of interest, unless it be through the contrast (not the identity) between the abundance of industrial capital and the scarcity of the demand for loan capital? The circumstances are such, that the merchant and the industrial capitalist can more easily give credit to one another; owing to this facilitation of commercial credit, neither the industrial nor the merchant need much bank credit; hence the rate of interest can be low. This low rate of interest has nothing to do with the increase of precious metals, although both of them may run parallel to each other and the same causes, which bring about the low prices of articles of import, may also produce a surplus of precious metals. If the import market were really overcrowded, it would prove a decrease of the

demand for imported articles, and this would be inexplicable at low prices, unless it be attributed to a contraction of industrial production at home; but this, again, would be inexplicable, so long as there is an over importation at low prices. All these absurdities are brought forward for the purpose of proving that a fall of prices is identical with a fall of interest. Both things may, indeed, exist side by side. But if they do, it will be an expression of the opposite directions, in which the movement of industrial capital and of loan capital takes place. It will not be an expression of their identity.
V.XXXV.53

Comment on sentence No. 3). Why money interest should be low, when commodities exist in abundance, is hard to understand, even after the foregoing remarks. If commodities are cheap, then I need, say, only 1,000 pounds sterling instead of 2,000 pounds sterling for a definite quantity which I may want to buy. But perhaps I might invest 2,000 pounds sterling nevertheless, and thus buy twice the quantity which I could have bought formerly. In this way I expand my business by advancing the same capital, which I may have to borrow. I buy 2,000 pounds sterling's worth of commodities, the same as before. My demand on the money market therefore remains the same, even though my demand on the commodity-market rises with the fall of the prices of commodities. But if this demand for commodities should decrease, that is, if production should not expand with the fall of the prices of commodities, a thing contrary to all laws of the

"Economist," then the demand for loanable money-capital would be decreasing, although the profit would be increasing. But this increasing profit would create a demand for loan capital. For the rest, the low stand of the prices of commodities may be due to three causes. First, to a lack of demand. In that case the rate of interest is low, because production is paralyzed, not because commodities are cheap, since this cheapness is but an expression of that paralysis. In the second place, it may be due to a supply which is excessive compared to the demand. This may be the result of an overcrowding of markets, etc., which may lead to a crisis, and may go hand in hand with a high rate of interest during a crisis; or it may be the result of a fall in the value of commodities, so that the same demand may be satisfied at lower prices. Why should the rate of interest fall in the last case? Because the profits increase? If this should be due to the fact that less money-capital is required for the purpose of obtaining the same productive or commodity-capital, it would merely prove that profit and interest stand in an inverse proportion to one another. Certainly this general statement of the "Economist" is wrong. Low money prices of commodities and a low rate of interest do not necessarily go together. Otherwise the rate of interest would be lowest in the poorest countries, in which the money prices of commodities are lowest, and highest in the richest countries, in which the money prices of products of agriculture are highest. In a general way the "Economist" admits: If the value of money falls, it exerts no influence on the rate of interest. 100 pounds sterling bring 105 pounds sterling the same as

ever. If the 100 pounds sterling are worth less, so are the 105 pounds sterling or the 5 pounds interest. This relation is not affected by the appreciation or depreciation of the original sum. Considered as a value, a definite quantity of commodities is equal to a definite sum of money. If this value rises, it is equal to a larger sum of money; the reverse takes place when it falls. If the value is 2,000, then 5% of it is 100; if it is 1,000, then 5% of it is 50. This does not alter anything in the rate of interest. The rational part of this matter is merely that a greater pecuniary accommodation is required, when it takes 2,000 pounds sterling to buy the same quantity of commodities, which may be bought for 1,000 pounds sterling at some other time. But this shows at this point merely that profit and interest are inversely proportionate to one another. For profit rises with the cheapness of the elements of constant and variable capital, whereas interest falls. But the reverse may also take place, and does often take place. For instance, cotton may be cheap, because no demand exists for yarn and fabrics; and cotton may be relatively dear, because a large profit in the cotton industry creates a great demand for it. On the other hand the profits of the industrials may be high, just because the price of cotton is low. That list of Hubbard's proves that the rate of interest and the prices of commodities pass through mutually independent movements, whereas the movements of the rate of interest adapt themselves closely to those of the metal reserve and the rates of exchange.

V.XXXV.54

Says the "Economist": "If, therefore, commodities are superabundant, then the money interest must be low." It is just the reverse which takes place during crises; the commodities are superabundant, not convertible into money, and therefore the rate of interest is high; in another phase of the cycle the demand for commodities is large, hence returns are easy, while prices of commodities are rising at the same time, and the rate of interest is low on account of the easy returns. "If they [the commodities] are scarce, it must be high." Once more the opposite is true in times of depression after a crisis. Commodities are scarce, absolutely speaking, not merely with reference to the demand; and the rate of interest is low.
V.XXXV.55

Comment on sentence No. 4). It is pretty evident that an owner of commodities, provided he can sell them at all, will get rid of them at a lower price when the market is overcrowded than he will when there is a prospect of a rapid exhaustion of the existing supply. But why the rate of interest should fall on that account is not so clear.
V.XXXV.56

If the market is overcrowded with imported commodities, the rate of interest may rise as a result of an increased demand for loan capital on the part of their owners, who may wish to escape the necessity of throwing their commodities on the market. On the other hand, the

rate of interest may fall, because the fluidity of commercial credit may keep the demand for bank credit relatively low.

V.XXXV.57

The "Economist" mentions the rapid effect on the rates of exchange in 1847, as a consequence of the raising of the rate of interest and other circumstances exerting a pressure on the money market. But it should not be forgotten, that the gold continued to be drained off until the end of April, in spite of the turn in the rates of exchange; a change did not take place in this until the beginning of May.
V.XXXV.58

On January 1, 1847, the metal reserve of the Bank was 15,066,691 pounds sterling; the rate of interest 3½%; rates of exchange for three months on Paris 25.75; on Hamburg 13.10; on Amsterdam 12.3¼. On March 5th the metal reserve had dwindled to 11,595,535 pounds sterling; the discount had risen to 4%; the rate of exchange fell to 25.67½ for Paris; 13.9¼ for Hamburg; 12.2½ for Amsterdam. The drain of gold continued. See the following table:

Date 1847 Precious Metal Reserve of the Bank of England
Money Market Highest Three Monthly Rates
Paris Hamburg Amsterdam

March 20 11,231,630 Bk. Dc. 4% 25.67½ 13.9¾ 12.2½

April 3 10,246,630 Bk. Dc. 5% 25.80 13.10 12.3½

April 10 9,867,053 Money very scarce 25.90 13.10 1/3 12.4½

April 17 9,329,941 Bk.Dc. 5.5% 26.02½ 13.10¾ 12.5½

April 24 9,213,890 Pressure 26.05 13.13 12.6

May 1 9,337,716 Increasing Pressure 26.15 13.12¾ 12.6½

May 8 9,588,759 Highest Pressure 26.27½ 13.15½ 12.7¾

V.XXXV.59

In 1847 the total exports of precious metals from England amounted to 8,602,597 pounds sterling.

Of this amount the United States received... 3,226,411 pounds sterling

France... 2,479,892 pounds sterling

Hansa Towns... 958,781 pounds sterling

Holland... 247,743 pounds sterling

V.XXXV.60

In spite of the change in the rates at the end of March the drain of gold continued for another full month, probably to the United States.

"We see here" [says the "Economist," 1847, p. 984], "how rapidly and strikingly the raising of the rate of interest exerted its effect, together with the subsequent money panic, in correcting an unfavorable rate of exchange and turning the tide of gold, so that it flowed once more into England. This effect was produced quite independently of the balance of payment. A higher rate of interest produced a lower price of securities, of English as well as foreign ones, and caused large purchases of them for foreign accounts. This increased the sum of the bills of exchange drawn by way of England, while on the other hand, at the high rate of interest, the difficulty of obtaining money was so great, that the demand for these bills of exchange fell, while their sum rose. It was for the same reason that orders for foreign goods were annulled and the investment of English capital in foreign securities realised and the money taken to England for investment. For instance, we read in the "Rio de Janeiro Prices Current" of May 10: "The rate of exchange" [on England] "has experienced a new setback, caused mainly by a pressure on the market for remittances for the realisations on considerable purchases of [Brazilian] government bonds for English account." English capital, which had been invested in foreign countries in various securities, when the rate of interest was very low here, was thus taken back when the rate of interest had risen.

IV. England's Balance of Trade.

V.XXXV.62

India alone has to pay 5 millions in tribute for "good government," interest and dividends of British capital, etc., not counting the sums sent home annually by officials as savings of their salaries, or by English merchants as a part of their profit in order to be invested in England. Every British colony has to make large remittances continually for the same reason. Most of the banks in Australia, West India, Canada, have been founded with English capital, and the dividends are payable in England. In the same way England owns many foreign securities, European, North and South American, on which it draws interest. In addition to this it is interested in foreign railroads, canals, mines, etc., with the corresponding dividends. Remittance on all these items is made almost exclusively in products, in excess of the amount of the English exports. What goes to foreign countries from England to owners of English securities and to be consumed by Englishmen abroad, is a vanishing quantity in comparison.
V.XXXV.63

The question, so far as it concerns the balance of trade and the rates of exchange, is "at every given moment a question of time. As a rule...England gives large credits on its exports, while its imports are paid in cash. In certain moments this difference of habit has

considerable influence on the rates of exchange. At a time when our exports increase very considerably, as in 1850, there must take place a continual expansion in the investment of British capital...in this way remittances of 1850 may be made against goods exported in 1849. But if the exports of 1850 exceed those of 1849 by more than 9 millions, the practical effect must be that more money is sent abroad, to this amount, than returned in the same year. And in this way an effect is produced on the rates of exchange and the rate of interest. But as soon as business is depressed by a crisis, and our exports are greatly reduced, the remittances due for large exports of former years considerably exceed the value of our imports; consequently the rates turn in our favor, capital rapidly accumulates in the home country, and the rate of interest falls." (Economist, January 11, 1851.)
V.XXXV.64

The foreign rates of exchange may be altered:

1) In consequence of a momentary balance of payment, no matter to what cause this may be due, whether it be a purely mercantile one, or the investment of capital abroad, or government expenditures, wars, etc., so far as cash payments are made to foreign countries.

2) In consequence of a depreciation of money in a certain country, whether it be metal or paper money. This is purely nominal. If one pound sterling should represent only half as much money as

formerly, it would naturally be counted as 12.5 francs instead of 25 francs.

3) When it is a question of the rate of exchange between countries, one of which uses silver, the other gold as "money," the rate of exchange depends upon the relative fluctuations of value of these two metals, since these fluctuations necessarily alter the parity between them. An illustration of this were the rates of exchange in 1850; they were against England, although its export rose enormously. But nevertheless no drain of gold took place. This was the result of a momentary rise in the value of silver as against that of gold. (See Economist, November 30, 1857.)

V.XXXV.65

The parity of the rate of exchange is for one pound sterling: on Paris 25.20 francs; Hamburg 13 marks banko 10.5 shillings;*113 Amsterdam 11 florins 97 centimes. In proportion as the rate of exchange on Paris exceeds 25.20 francs, it becomes more favorable to the English debtor of France, or the buyer of French commodities. In either case he needs less pounds sterling in order to accomplish his purpose.‘In more remote countries, where precious metals are not easily obtained, when bills of exchange are scarce and insufficient for the remittances to be made to England, the natural effect is a raising of the prices of such products as are generally shipped to England, a greater demand

arising for them, in order to send them to England in place of bills of exchange; this is often the case in India.
V.XXXV.66

An unfavorable rate of exchange, or even a drain of gold, may take place, when there is a great abundance of gold in England, a low rate of interest, and a high price of securities.
V.XXXV.67

In the course of 1848 England received large quantities of silver from India, since good bills of exchange were rare and mediocre ones were not easily accepted, in consequence of the crisis of 1847 and the great lack of credit in the Indian business. All this silver, when hardly arrived, quickly found its way to the continent, where the revolution caused a formation of hoards at all points. The same silver largely made the trip back to India in 1850, since the stand of the rates of exchange made this profitable.

V.XXXV.68

The monetary system is essentially Catholic, the credit system essentially Protestant. "The Scotch hate gold." In the form of paper the monetary existence of commodities has only a social life. It is Faith that makes blessed. Faith in money-value as the imminent spirit of commodities, faith in the prevailing mode of production and its

predestined order, faith in the individual agents of production as mere personifications of selfexpanding capital. But the credit system does not emancipate itself from the basis of the monetary system any more than Protestantism emancipates itself from the foundations of Catholicism.

Notes for this chapter

106.
What effect this had on the money market, is shown by the following testimony of Newmarch: 1509. "Toward the close of 1853 considerable apprehension was felt by the public; in September the Bank of England raised its discount three times in succession...in the first days of October...a considerable degree of anxiety and alarm showed itself among the public. These apprehensions and this restlessness were largely alleviated before the end of November, and were almost wholly removed by the arrival of five millions in precious metal from Australia. The same thing was repeated in the fall of 1854, when almost six millions in precious metals arrived in October and November. And in the fall of 1855, a time of excitement and restlessness, the same thing was repeated on the arrival of about eight millions in precious metals during the months of September, October and November. At the end of 1856 we find the same thing takes place. In short, I could very well appeal to the experience of nearly every member of this committee as to whether we have not

become accustomed to see a natural and complete remedy for a financial stringency in the arrival of a gold ship."
107.
According to Newmarch, a drain of gold to foreign countries may arise from three causes: 1) from purely commercial conditions, that is, if the imports have exceeded the exports, as was the case during the time from 1836 to 1844, and again in 1847, principally a heavy import of corn; 2) from a desire to secure the means for the investment of English capital in foreign countries, as in 1857 for railroads in India; and 3) from a necessity of making definite expenditures in foreign countries, as in 1853 and 1854 for purposes of war in the Orient.
108.
1918. Newmarch. "If you take India and China together, if you take into account the transactions between India and Australia, and the still more important ones between China and the United States, and in these instances the business is a three-cornered one and the equilibration takes place through our intervention...then it is correct that the balance of trade was not only against England, but also against France and the United States."‘(B. A., 1857.)
109.
See, for instance, the ridiculous answer of Weguelin, who says that five millions of drained gold is so much capital less, and who attempts to explain in this way certain phenomena, which do not appear when the actual industrial capital is infinitely more raised or depressed in price, expanded or contracted. On the other hand, it is just as

ridiculous to attempt to explain these phenomena directly as symptoms of an expansion or contraction of the mass of real capital (that is, the material elements of capital).

110.

Newmarch, B. A., 1857, No. 1364: "The metal reserve in the Bank of England is in fact...the central reserve or the central metal board, on the basis of which the entire business of the country is carried on. It is so to say the cardinal point, around which the entire business of the country has to turn; all other banks in the country consider the Bank of England as the central treasury, or the reservoir, from which they have to draw their reserves of hard cash; and the effect of the foreign rates of exchange falls always precisely upon this treasury and this reservoir."

111.

"Practically, therefore, both Tooke and Loyd would meet an excessive demand for gold by a premature limitation of credits by raising the rate of interest and reducing advances of capital. Only Loyd causes by his illusion inconvenient and even dangerous [legal] limitations and rules." (Economist, 1847, p. 1417.)

112.

"You quite agree that there is no other way to modify the demand for gold than by raising the rate of interest?"‘Chapman, associate member of the great bill brokers' firm of Overend Gurney & Co.: "That is my opinion. If our gold falls to a certain point, the best we can do is to ring the alarm bell at once an to say: We are on the

decline, and whoever sends gold abroad, must do so at his own peril."‘B. A. 1857, Evidence No. 5057.

113.

Old style German money, now discarded.‘TRANSLATOR.

Part V,

Volume III Chapter XXXVI PRECAPITALIST CONDITIONS.

V.XXXVI.1

INTEREST bearing capital, or usurer's capital, as we may call it in its ancient form, belongs like its twin brother, commercial capital, to the antediluvian forms of capital, which long precede the capitalist mode of production and are found in the most diverse economic formations of society.

V.XXXVI.2

The existence of usurer's capital requires merely that at least a portion of the products should be converted into commodities, and that money with its various functions should have developed along with the trade in commodities.

V.XXXVI.3

The development of capital attaches itself to that of merchant's capital, more particularly to financial capital. In ancient Rome, starting from the last stages of the republic, when manufacture stood far below its ancient average development, merchants' capital, financial capital, and usurers' capital had reached their highest point within that ancient form.
V.XXXVI.4

We have seen that hoarding necessarily appears with money. But the professional hoarder does not become important until he becomes transformed into a usurer.
V.XXXVI.5

The merchant borrows money in order to make a profit with it, in order to use it as capital, that is, to spend it as such. Hence the money lender stands in the same relation to him in former stages of society as he does to the modern capitalist. This specific relation was felt also by the Catholic universities. "The universities of Alcala, of Salamanca, of Ingolstadt, of Freiburg in the Breisgau, Mayence, Cologne, Treves, one after another recognized the legality of interest for commercial loans. The first five of these approbations were deposited in the archives of the Consulate of the city of Lyons and published in the appendix of the Traité de l'usure et des intérêts, at Lyons, by Bruyset-Ponthus." (M. Augier, Le Crédit Public, etc., Paris, 1842, p. 206.)

V.XXXVI.6

In all forms, in which slave economy (not the patriarchal kind, but that of later Grecian and Roman times) serves as a means of amassing wealth, where money is a means of appropriating the labor of others by purchase of slaves, land, etc., there money becomes useful as capital, brings interest, for the reason that it may be so invested.

V.XXXVI.7

However, the most characteristic forms, in which usurers' capital exists in times antedating capitalist production, are two. I say purposely characteristic forms. The same forms repeat themselves on the basis of capitalist production, but as mere subordinate forms. They are then no longer the forms which determine the character of interest-bearing capital. These two forms are: First, usury by lending money to extravagant persons of the higher classes, particularly to land owners; secondly, usury by lending money to the small producer who is in possession of his own means of employment, which includes the artisan, but more particularly the peasant, since under precapitalist conditions, so far as they permit of independent individual producers, the peasant class must form the overwhelming majority.

V.XXXVI.8

Both the ruin of rich land owners by usury and the spoilation of the small producers leads to the formation and concentration of large money-capitals. But to what extent this process does away with the old mode of production, as happened in modern Europe, and whether it places in its stead the capitalist mode of production, depends entirely upon the stage of historical development and the circumstances surrounding it.
V.XXXVI.9

Usurers' capital as the characteristic form of interest-bearing capital corresponds to the predominance of small scale production, of selfemploying peasants and small craft masters. When the laborer is confronted by the means of employment and by the product of labor in the shape of capital, as he is under the capitalist mode of production, he has no occasion to borrow any money as a producer. When he does any borrowing of money, he does it to secure personal necessities, for instance, at the pawnshop. But wherever the laborer is the owner, whether actual or nominal, of his means of employment and of his product, he is confronted as a producer by the capital of the money lender, which stands in his way as a usurer's capital. Newman expresses the matter weakly, when he says that the banker is respected while the usurer is hated and despised, because the banker lends to the rich, whereas the usurer lends to the poor. (J. W. Newman, Lectures on Political Economy, London, 1851, p. 44.) He overlooks the fact that the difference of two modes of social

production and of the corresponding social orders intervenes here and that the matter is not exhausted by the distinction between rich and poor. On the contrary, the usury which sucks the life out of the small producer goes hand in hand with the usury which sucks the rich owner of large estates dry. As soon as the usury of the Roman patricians had completely ruined the Roman plebeians, the small peasants, this form of exploitation had an end and slave economy undisguised took the place of small peasant economy.
V.XXXVI.10

Under the form of interest the whole of the surplus over the necessary means of subsistence (the amount of what becomes wages later on) of the producers may here be devoured by usury (this assumes later the form of profit and ground rent), and hence it is very absurd to compare the level of this interest, which assimilates all the surplus-value with the exception of the share claimed by the state, with the level of the modern rate of interest, which gives to the interest normally no more than a part of the surplus-value. Such a comparison forgets that the wage worker gives to the capitalist, who employs him, profit, interest and ground rent, that is, the whole surplus-value produced by him. Carey makes this absurd comparison in order to show, how advantageous the development of capital and the fall in the rate of interest, that goes with it, is for the laborer. When it is said that the usurer, not content with squeezing the surplus-labor out of his victim, gradually acquires possession of the

means of employment, house and land, of this victim and is thus continually engaged in expropriating him, it is forgotten that this complete expropriation of the laborer from his means of employment is not a result which the capitalist mode of production seeks to accomplish, but rather the established condition from which it starts out. The wage slave is barred from becoming a creditor's slave just as the real slave was, at least in his capacity as a producer. The wage slave may eventually become a creditor's slave in his capacity as a consumer. Usurer's capital in this form, in which it appropriates indeed all surplus-labor of the direct producers, does not alter the mode of production. The ownership, or at least the possession of the means of employment by the producers, and small scale production corresponding to this, are its essential prerequisites. Here capital does not subordinate labor to itself directly, and does not confront the laborer as industrial capital, while usurer's capital merely impoverishes this mode of production, paralyzes the productive forces instead of developing them, and at the same time perpetuates these miserable conditions, in which the social productivity of labor is not developed at the expense of labor itself, as it is under the capitalist mode of production.

V.XXXVI.11

On the one hand, usury thus exerts an undermining and destructive influence on ancient and feudal wealth and ancient and feudal property. On the other hand it undermines and ruins small peasants'

and small burghers' production, in short all forms, in which the producer still appears as the owner of his conditions of production. Under the developed capitalist mode of production, the laborer is not the owner of his means of employment, of the field which he cultivates, of the raw materials which he works up, etc. But under this system the separation of the producer from the means of employment is the expression of an actual revolution of the mode of production itself. The individual laborers are brought together in large workshops for the purpose of a division of labor, which dovetails one man's activity into another's. The tool becomes a machine. The mode of production no longer permits this dislocation of the means of production, which goes with small property, nor does it permit the isolation of the laborer himself. Under the capitalist mode of production, usury can no longer separate the producer from his means of production, for the simple reason that they have already been separated.
V.XXXVI.12

Usury centralises money wealth, where the means of production are disjointed. It does not alter the mode of production, but attaches itself to it as a parasite and makes it miserable. It sucks its blood, kills its nerve, and compels reproduction to proceed under even more disheartening conditions. Hence the popular hatred against usurers, which was most pronounced in the ancient world, where the ownership of the means of production by the producer himself was at

the same time the basis of the political conditions, of the independence of the citizen. To the extent that slavery prevails, or to the extent that the surplus product is consumed by the feudal lord and his retinue, while either the slave owner or the feudal lord fall into the clutches of the usurer, the mode of production remains the same. Only, it becomes harder on the laborer. The indebted slave holder or feudal lord becomes more oppressive, because he is himself more oppressed. Or he makes finally room for the usurer, who becomes a landed proprietor or a slave holder himself, like the knights in ancient Rome. Into the place of the old exploiters, whose exploitation was more or less patriarchal, because it was largely a means of political power, steps a hard, money-mad parvenue, But the mode of production itself is not altered thereby.
V.XXXVI.13

Usury works revolutionary effects in all precapitalist modes of production only so far as it destroys and dissolves those forms of property, which form the solid basis of the political organisation, and which must be continually reproduced in order that the political organisation may endure. Under the Asiatic forms usury may last for a long time, without producing anything else but economic disintegration and political rottenness. Not until the other prerequisites of capitalist production are present, does usury become a means of assisting in the formation of the new mode of production, by ruining the feudal

lord and small scale production on the one hand, and centralising the means of production into capital on the other.
V.XXXVI.14

In the Middle Ages no country had any general rate of interest. The Church forbade all lending at interest from the outset. Laws and courts protected loans but very little. Interest was so much higher in individual cases. The limited circulation of money, the necessity of making most payments in cash, compelled people to borrow money, so much more the less the business of exchanging money was developed. There was a great deal of difference, both in the rates of interest and the conceptions of usury. In the time of Charlemagne it was considered usury to charge 100%. In Lindau on Lake Boden some resident burghers took 216 2/3% in 1348. In Zurich the City Council decreed that 43 1/3% should be the legal rate of interest. In Italy 40% had to be paid sometimes, although the ordinary rate did not exceed 20% from the 12th to the 14th century. Verona ordered that 12½% should be the legal rate. Emperor Frederick II. fixed the rate at 10%, but only for Jews. He did not care to speak for the Christians. In the Rhine provinces 10% was the rule as early as the 13th century. (Hüllmann, Geschichte des Städtewesens, II, pp. 55-57.)
V.XXXVI.15

Usurer's capital uses a capital's method of exploitation without its mode of production. This state of affairs repeats itself also inside of

bourgeois economy, in backward lines of industry or in those lines, which resist the transition to the modern mode of production. For instance, if we wish to compare the English rate of interest with the Indian, we should not take the rate of interest of the Bank of England, but rather that, say, of the lenders of small machinery to small producers in domestic industry.
V.XXXVI.16

Usury as an enemy of consuming wealth is historically important inasmuch as it is itself a process generating capital. Usurer's capital and merchant's wealth promote the formation of moneyed wealth independent of landed property. The less products assume the character of commodities, and the less exchange-value seizes the whole breadth and depth of production, the more does money appear as real wealth, that, is, as wealth in general compared to its limited existence in use-values. This is the basis of hoarding. Aside from money as world money and a hoard, it assumes the absolute form of commodities particularly as a means of payment. And it is especially its function as a means of payment, which develops interest and with it money-capital. What squandering and corrupting wealth wants is money as such, money as a means of buying everything (also as a means of paying debts). The small producer needs money above all to make payments. (The conversion of tithes in kind and service in kind to landlords and to the state into money rent and money taxes plays a great role in this.) In either case money is used as money proper.

On the other hand hoarding becomes real only in this way, and thus fulfills the dreams of the usurer. What the owner of a hoard demands is not capital, but money as such; but by means of interest he converts his hoard of money into capital for himself, that is, into a means of grabbing surplus-labor in part or entirely, and with it securing a hold on a part of the requirements of production itself, even though this may remain separate from him as a nominal property of others. Usury lives apparently in the pores of production in the same way as the gods live in the spaces between worlds according to Epicurus. Money is obtainable so much harder, the less products assume the general form of commodities. Hence the usurer acknowledges no other barrier but the capacity or resistive power of those who need money. In small peasants' and small burghers' production money serves as a means of purchase mainly, whenever the laborer (who is still to a predominant extent the owner of his means of production under these modes of production) loses his means of employment by accident or by extraordinary upheavals, or at least does not become able to recover them in the ordinary course of reproduction. Means of subsistence and raw materials constitute the essential part of these requirements of production. If these become dearer, it may be impossible to reproduce them out of the returns for the product, just as mere crop failures may prevent the peasant from reproducing his seed grain in its natural form. The same wars, by which the Roman patricians ruined the plebeians, by compelling them to serve as soldiers and thus preventing them from reproducing the

requirements of their productive activity and making paupers of them (and pauperization, depletion or loss of the prerequisites of reproduction is here the predominent form), filled the sheds and cellars of the patricians with looted copper, the money of that time. Instead of giving to the plebeians directly the necessary commodities, grain, horses, cattle, they loaned to them this copper, for which they had no use themselves, and availed themselves of this condition for the purpose of enforcing enormous interest by usury, thereby turning the plebeians into their debtor slaves. Under the reign of Charlemagne the Frankish peasants were likewise ruined by wars, so that nothing remained to them but to become serfs instead of debtors. In the Roman empire it happened frequently that famines caused the sale of children, or the voluntary sale of free men by themselves, into slavery to the rich. So much for general turning points. In individual cases the maintenance or loss of the requirements of production on the part of the small producers depend on a thousand accidents, and everyone of such accidents or losses signifies impoverishment and becomes an opening, into which the parasite of usury may enter. The mere death of a cow may render the small producer unable to renew his reproduction on the former scale. Then he falls into the clutches of the usurer, and once he is in the usurer's power he never extricates himself.

V.XXXVI.17

The typical great and peculiar domain of the usurer, however, is the function of money as a means of payment. Every payment of money, ground rent, tribute, tax, etc., which becomes due at a certain date, carries with it the necessity of securing money for such a purpose. Hence usury attaches itself from the days of the ancient Romans to those of modern times to the tax renters, the fermiers généraux, the receveurs généraux. Furthermore, commerce and the extension of commodity-production carry with them the separation of purchase and payment by an interval of time. The money has to be on the spot at a definite date. In what manner this may lead to circumstances, in which the money-capitalist and usurer may merge into one even nowadays, is shown by the modern money panics. This same usury, however, becomes one of the principal means of further developing the necessity of using money as a means of payment, by getting the producer ever more deeply into debt and destroying his usual means of payment in such a way that the burden of interest makes even his normal reproduction impossible. In that case usury sprouts up out of money as a means of payment and extends this function of money into its own peculiar domain.
V.XXXVI.18

The development of the credit system takes place as a reaction against usury. But this should not be misunderstood, nor interpreted in the manner of the ancient writers, the church fathers, Luther, or the older socialists. It signifies no more and no less than the

subordination of interest-bearing capital to the conditions and requirements of the capitalist mode of production.
V.XXXVI.19

On the whole, interest-bearing capital under the modern credit-system is adapted to the conditions of the capitalist mode of production. Usury as such does not merely perpetuate itself, but is even freed by nations with a developed capitalist production from those fetters, which were imposed upon it by the old legislation. Interest-bearing capital retains the form of usurer's capital in its transactions with such persons or classes, or those in such circumstances, as do not borrow in the sense corresponding to the capitalist mode of production, or in which borrowing cannot take place in that sense. This applies to borrowing from individual want at the pawnshop; to lending money for the purpose of squandering on the part of wealthy spendthrifts; or to borrowing money on the part of producers who are not capitalist producers, such as small farmers, craftsmen, etc., who are still the owners of their own requirements of production; finally to borrowing on the part of capitalist producers, who still operate on such a small scale, that they approach those self-employing producers.
V.XXXVI.20

What distinguishes the interest-bearing capital, so far as it is an essential element of the capitalist mode of production, from usurer's capital is in no way the nature or the character of this capital itself.

It is merely the altered conditions, under which it operates, and consequently the totally changed character of the borrower, who transacts business with the money lender. Even in cases where a man without wealth receives credit in his capacity as an industrial or merchant, it is done for the confident expectation, that he will perform the function of a capitalist and appropriate some unpaid labor with the borrowed capital. He receives credit in his capacity as a potential capitalist. This circumstance, that a man without wealth, but with energy, solidity, ability and business sense may become a capitalist in this way, is very much admired by the apologists of the capitalist system, and the commercial value of each individual is pretty accurately estimated under the capitalist mode of production. Although this circumstance continually brings an unwelcome number of new soldiers of fortune into the field and into competition with the already existing individual capitalists, it also secures the supremacy of capital itself, expands its basis, and enables it to recruit ever new forces for itself out of the lower layers of society. In a similar way the circumstance, that the Catholic Church in the Middle Ages formed its hierarchy out of the best brains of people without regard to estate, birth, or wealth, was one of the principal means of fortifying priest rule and suppressing the laity. The more a ruling class is able to assimilate the most prominent men of a ruled class, the more solid and dangerous is its rule.

V.XXXVI.21

Instead of the anathema against interest-bearing capital in general, it is on the contrary its explicit recognition, from which the initiators of the modern credit system take their start.
V.XXXVI.22

We are not speaking here of such reactions against usury, as tried to protect the poor against it, like the Monts-de-piété (1350 in Sarlins of the Franche-Comté, later in Perugia and Savona of Italy, 1400 and 1479). These are remarkable mainly because they show the irony of history, which turns pious wishes into their very opposite as soon as they are realised. According to a moderate estimate the English working class pays 100% to the pawnshops, those modern successors of the Monts-de-piété.*114 Neither are we speaking of the credit phantasies of a man like Dr. Hugh Chamberleyne or John Briscoe, who attempted during the last decade of the 17th century to emancipate the English aristocracy from usury by means of a country bank with paper money based on real estate.*115
V.XXXVI.23

The credit associations, which were established in the 12th and 14th centuries in Venice and Genoa, arose from the need of marine commerce and wholesale trade connected with it to emancipate themselves from the domination of ancient usury and from the monopolists of the money business. The fact that the bona fide banks, which were founded in those city-republics, assumed at the same time

the shape of institutions for public credit, from which the state received loans on future tax revenues, is explained by the circumstance that the merchants forming such associations were the prominent men of those states and as much interested in emancipating their state as themselves from the exactions of usurers,*116 and at the same time getting a better and more secure control of the states themselves. Hence, when the Bank of England was being planned, the Tories raised the objection: "Banks are republican institutions. Flourishing banks exist in Venice, Genoa, Amsterdam, and Hamburg. But who ever heard of a Bank of France or Spain?"
V.XXXVI.24

The Bank of Amsterdam, in 1609, did not mark an epoch in the development of the modern credit system any more than that of Hamburg in 1619. It was purely a bank for deposits. The checks issued by the bank were indeed merely receipts for the deposited, coined and uncoined, precious metal, and circulated only with the endorsement of those who received them. But in Holland commercial credit and dealing in money had developed together with commerce and manufacture, and the interest-bearing capital had been subordinated to industrial and commercial capital by the course of development itself. This showed itself even in the lowness of the rate of interest. And Holland was considered in the 17th century as the model country of economic development, as England is now. The

monopoly of old-style usury, based on poverty, had been overthrown in that country of its own weight.
V.XXXVI.25

During the entire 18th century Holland is pointed out as an example and the cry raised for a compulsory lowering of the rate of interest (and legislation acted on this hint), in order to subordinate the interest-bearing capital to the commercial and industrial capital, instead of maintaining the reverse condition. The main spokesman of this movement is Sir Josiah Child, the father of normal English bankerdom. He declaims against the monopoly of the usurers in much the same way that the wholesale clothing manufacturer Moses & Son do when posing as the leaders of the fight against the monopoly of the private tailors. This Josiah Child is at the same time the father of English stock jobbing. Thus he, the autocrat of the East India Company, defends its monopoly in the name of free trade. About Thomas Manley ("Interest of Money Mistaken") he says: "As the champion of the timid and trembling band of usurers he erects his batteries at that point, which I have declared to be the weakest...he denies point blank that the low rate of interest is the cause of wealth and vows that it is merely its effect." Traités sur le Commerce, etc., 1669, translated in Amsterdam and Berlin, 1754.) "If it is commerce that enriches a country, and if a lowering of interest increases commerce, then a lowering of interest or a restriction of usury is doubtless a fruitful primary cause of the wealth of a nation. It is not at all absurd to say

that the same thing may be simultaneously a cause under certain circumstances, and an effect under others." (L. c., p. 55.) "The egg is the cause of the hen, and the hen is the cause of the egg. The lowering of interest may cause an increase of wealth, and the increase of wealth may cause a still greater reduction of interest." (L. c., p. 156.) "I am the defender of industry and my opponent defends laziness and sloth." (P. 179.)
V.XXXVI.26

This violent fight against usury, this demand for the subordination of the interest-bearing under the industrial capital, is but the herald of the organic creations, that establish these prerequisites of capitalist production in the modern banking system, which on the one hand robs usurer's capital of its monopoly by concentrating all fallow money reserves and throwing them on the money-market, and on the other hand limits the monopoly of the precious metals themselves by creating credit-money.
V.XXXVI.27

The same opposition to usury, the demand for emancipation of commerce, industry and of the state from usury, which we observe here in the case of Child, will be found in all writings on banking during the last third of the 17th and the beginning of the 18th centuries. With them go also colossal illusions about the miraculous effects of credit, the abolition of the monopoly of precious metals,

their displacement by paper, etc. The Scotchman William Patterson, the founder of the Bank of England and the Bank of Scotland, is by all odds Law the First.

V.XXXVI.28

Against the Bank of England all goldsmiths and pawn-brokers raised a howl of rage. (Macaulay, History of England, IV., p. 499.) During the first ten years the Bank had to struggle with great difficulties; great enmity from without; its notes were only accepted far below their nominal value...the goldsmiths (in whose hands the trade with precious metals served as a basis of a primitive banking business) intrigued considerably against the Bank, because their business was reduced by it, their discount lowered, and their business with the government had fallen into the hands of this antagonist. (J. Francis, l. c., p. 73.)

V.XXXVI.29

Even before the establishment of the Bank of England a plan for a national bank of credit was suggested in 1683, which had for its purpose, among others, "that business men, when they possess a considerable quantity of goods, may deposit their goods with the assistance of this bank and take up a credit on their tied-up supplies, employ their hands, and increase their business, until they find a good market, instead of selling at a loss." After many difficulties this Bank of Credit was erected in Devonshire House in Bishopsgate Street. It

made loans to industrials and merchants on security of deposited goods to the amount of three quarters of their value, in bills of exchange. In order to make these bills of exchange marketable, a number of people in each branch of business were organised into a society, from whom every possessor of such bills should be able to get goods with the same facility as though he were to offer them cash payment. This bank did not do a flourishing business. Its machinery was too complicated, the risk too great in case of a depreciation of commodities.
V.XXXVI.30

If we go by the real content of those writings, which accompany and promote theoretically the formation of the modern credit system in England, we shall not find anything in them but the demand for a subordination of interest-bearing capital, and of loanable means of production in general, under the capitalist mode of production as one of its prerequisites. On the other hand, if we cling to the mere phraseology, we shall be frequently surprised by their agreement, down to the very expressions, with the banking and credit illusions of the Saint-Simonists.
V.XXXVI.31

Just as the cultivateur in the writings of the physiocrats does not signify the actual tiller of the soil, but the great land owner, so the travailleur with Saint-Simon, and continuing on through his disciples,

does not signify the laborer, but the industrial and commercial capitalist. "A travailleur (worker) needs help, backers, laborers; he looks for such as are intelligent, able, devoted; he puts them to work, and their labor is productive." (Religion saint-simonienne, Économie politique et Politique. Paris, 1831, p. 104.)
V.XXXVI.32

In fact, one should not forget that only in his last work, Le Nouveau Christianisme, does Saint-Simon speak directly for the working class and declare their emancipation to be the end of his efforts. All his former writings are, indeed, mere glorifications of modern bourgeois society against feudal society, or of industrials and bankers against marshals and jurist law-makers of the Napoleonic era. What a difference compared with the contemporaneous writings of Owen!*117
V.XXXVI.33

Among his followers, like wise, the industrial capitalist remains the travailleur par excellence, as the above quoted passage indicates. After reading their writings critically, one will not be surprised, that the realization of their dreams of banks and the upshot of their critique materialised in the Crédit mobilier founded by the Ex-Saint-Simonist Emile Pereire. This form of credit could become prevalent only in a country like France, where neither the credit system nor great industries had become developed to a modern scale.
V.XXXVI.34

In the following passage of the "Doctrine de Saint-Simon, Exposition, Première année, 1828-29" (Third edition, Paris, 1831), the germ of the Crédit mobilier is already contained. It is easy to understand, that the banker can lend money more cheaply than the capitalist and the private usurer. The bankers are, therefore, "able to procure tools to the industrials far more cheaply, that is, at a lower interest than the real estate owners and capitalists can, who may be more easily mistaken in their choice of borrowers." (P. 202.) But the authors themselves add in a footnote: "The advantage that would follow from an intervention of bankers between the idle and the travailleurs is often balanced, or even annulled, by the opportunities offered by our disorganized society to Egoism, which may manifest itself in various forms of fraud and charlatanry. The bankers often come between the idle and the travailleurs for the purpose of exploiting both of them to the injury of society." Travailleur means here industrial capitalist. For the rest it is a mistake to consider the means at the command of banks merely as means of idle people. In the first place the banks hold that portion of capital, which industrials and merchants own temporarily in the form of unemployed money, as a money reserve or as capital to be invested. It is idle capital, but not capital of idle people. In the second place the banks hold that portion of the revenues and savings of all kinds which is to be temporarily or permanently accumulated. Both things are essential for the character of the banking system.

V.XXXVI.35

But it should never be forgotten, that money, in the first place, in the form of precious metals, remains the basis from which the credit system naturally can never detach itself. In the second place, it must be kept in mind that the credit system has for its premise the monopoly of the social means of production in the hands of private people (in the form of capital and landed property), that it is itself on the one hand an immanent form of the capitalist mode of production, and on the other hand one of the impelling forces of the development of this mode of production to its highest and ultimate form.

V.XXXVI.36

The banking system, so far as its formal organisation and centralisation is concerned, is the most artificial and most developed product turned out by the capitalist mode of production, a fact already expressed in 1697 in "Some Thoughts of the Interests of England." This accounts for the immense power of such an institution as the Bank of England over commerce and industry, although their actual movements remain quite outside of its sphere and it is passive toward them. It presents indeed the form of universal bookkeeping and of a distribution of products on a social scale, but only the form. We have seen that the average profit of the individual capitalist, or of every individual capital, is determined, not by the surplus-labor appropriated at first hand by each capital, but by the total quantity of surplus-labor

appropriated by the total capital, whereof each individual capital receives a dividend as an aliquot part of the total capital. This social character of capital is promoted and fully realised by the complete development of the credit and banking system. On the other hand this goes still farther. It places at the disposal of the industrial and commercial capitalists all the available, or even potential, capital of society, so far as it has not been actively invested, so that neither the lender nor the user of such capital are its real owners or producers. This does away with the private character of capital and implies in itself, to that extent, the abolition of capital. By means of the banking system the distribution of capital as a special business, as a social function, is taken out of the hands of the private capitalists and usurers. But at the same time banking and credit thus become the most effective means of driving capitalist production beyond its own boundaries, and one of the most potent instruments of crises and swindle.
V.XXXVI.37

The banking system shows, furthermore, by putting different forms of circulating credit in the place of money, that money is in reality nothing but a special expression of the social character of labor and its products, so that this character, as distinguished from the basis of individual production, must present itself in the last analysis as a thing, as a peculiar commodity by the side of the other commodities.
V.XXXVI.38

Finally, there is no doubt that the credit system will serve as a powerful lever during the transition from the capitalist mode of production to the production by means, of associated labor; but only as one element in connection with other great organic revolutions of the mode of production itself. On the other hand, the illusions concerning the miraculous power of the credit and banking system, as nursed by some socialists, arise from a complete lack of familiarity with the capitalist mode of production and the credit system as one of its forms. As soon as the means of production have ceased to be converted into capital (which includes also the abolition of private property in land), credit as such has no longer any meaning. This was understood also by the advocates of Saint-Simonism. But so long as the capitalist mode of production lasts, interest-bearing capital as one of its forms also continues and constitutes actually the basis of the credit system. Only that sensational writer, Proudhon, who wanted to perpetuate the production of commodities and yet abolish money*118, was capable of dreaming of a crédit gratuit, this monster which was supposed to realise the pious wish of small capitalist production.
V.XXXVI.39

In the "Religion saint-simonienne, Économie et Politique," we read on page 45: "Credit serves the purpose, in a society in which some own the instruments of industry without the ability or the will to employ them, and in which other industrious people have no instruments of

labor, of transferring these instruments in the easiest manner possible from the hands of the former, their owners, to the hands of the others who know how to use them. Note that this definition regards credit as a result of the way in which property is constituted." Therefore credit disappears with this constitution of property. We read, furthermore, on page 98, that the present banks "consider it their business to yield to that movement which is started by the transactions taking place outside of their domain, not to give them an impulse on their part; in other words, the banks perform the role of capitalists in their transactions with those travailleurs, to whom they loan money." The idea that the banks themselves should take the lead and distinguish themselves "through the number and usefulness of the organised establishments and of the promoted works" (p. 101) contains the Crédit mobilier in embryo. In the same way Charles Pecqueur demands that the banks (or what the Saint-Simonists call a Système général des banques) "should rule production." Pecqueur is essentially a Saint-Simonist, only much more radical. He desires that "the credit institute...should control the entire movement of national production."‘"Try to create a national credit institute, which shall advance means to propertyless talent and merit, without, however, knitting these borrowers by compulsion into a close solidarity in production and consumption, but on the contrary rather enabling them to determine their own exchanges and production. In this way you will accomplish only what the private banks accomplish even now, that is, anarchy, a disproportion between production and consumption, the

sudden ruin of one, and the sudden enrichment of another; so that your institute will never get any farther than the point of producing a great deal of welfare for one, which amounts to a great deal of suffering endured by another...only that you will have given to the wage laborers assisted by you the means of competing among one another in the same way that their capitalist masters do now." (Ch. Pecqueur, Théorie Nouvelle d' Économie Sociale et Politique, Paris, 1842, p. 434.)
V.XXXVI.40

We have seen that merchants' capital and interest-bearing capital are the most ancient forms of capital. In the nature of the case, interest-bearing capital assumes in the popular conception the form of capital par excellence. In the case of merchants' capital, the activity of a middle man is performed, no matter whether it be rated as cheating, labor, or anything else. But in the case of interest-bearing capital the self-reproducing character of capital, the self-expansion of value, the production of surplus-value, surrounds itself with the qualities of the the occult. This accounts for the fact that even a part of the political economists, particularly in countries in which industrial capital is not yet fully developed, as in France, cling to interest-bearing capital as the fundamental form of capital and regard, for instance, ground rent merely as a modified form of it, because the form of lending predominates also in it. In this way the internal articulation of the capitalist mode of production is completely misunderstood, and the

fact is entirely overlooked that land, like capital, is loaned only to capitalists. Of course, natural means of production, such as machines, business buildings, etc., may also be loaned instead of money. But they always represent a certain sum of money, and the fact that not only interest, but also wear and tear has to be paid for them, is due to their use-value, the specific natural form of these elements of capital. The thing which decides in this case is whether they are loaned to the direct producers, which would imply the non-existence of the capitalist mode of production, at least in the sphere in which this takes place, or whether they are loaned to the industrial capitalists, which is the basic assumption under the capitalist mode of production. It is still more improper and meaningless to drag the lending of houses, etc., for individual consumption into this part of the discussion. That the working class is swindled to an enormous extent, in this way as well as in others, is an evident fact; but this is done also by the retail dealer, who sells them means of subsistence. It is a secondary exploitation, which runs parallel with the primary one taking place in the process of production itself. The distinction between selling and loaning is quite immaterial in this case and merely formal, and cannot appear as essential to any one, unless he be wholly unfamiliar with the actual condition of the problem.

V.XXXVI.41

Both usury and commerce exploit the various modes of production. They do not create it, but attack it from the outside. Usury tries to maintain it directly, in order to be able to exploit it ever anew, but it is conservative and makes it only more miserable. The less the elements of production enter the process of production as commodities and come out of it as commodities, the more does their descent from money appear as a separate act. The more significant the role played by circulation in the social reproduction, the more does usury flourish. V.XXXVI.42

That moneyed wealth develops as a special kind of wealth means with reference to usurer's capital that it collects all its claims in money. It develops so much more in any country, the more the mass of production limits itself to natural services, etc., that is, to use-values. V.XXXVI.43

To that extent usury has a double effect. First, it frames up an independent moneyed wealth by the side of the merchant class. In the second place it appropriates to itself the prerequisites of labor, that is, it ruins the owners of the old requisites of production. Thus it becomes a powerful lever for the formation of the requirements of industrial capital.

Interest in the Middle Ages.

V.XXXVI.44

In the Middle Ages the population was purely agricultural. And there, as under feudal rule, commerce can be but small and consequently profit but slight. Hence the laws against usury were justified in the Middle Ages. Moreover, in an agricultural country one has rarely any occasion for borrowing money, except when reduced by poverty and misery....Henry VIII limits interest to 10%, Jacob I. to 8%, Charles II, to 6%, Anne to 5%....In those days the money-lenders, if not legally, were at least in fact monopolists, and therefore it was necessary to place them under restriction like other monopolists....In our times the rate of profit regulates the rate of interest; in those times the rate of interest regulated the rate of profit. If the money-lender loaded a heavy rate of interest on the merchant, then the merchant had to add a higher rate of profit to the price of his commodities. Consequently a large sum of money was taken out of the pockets of the buyers in order to put it into the pockets of the money-lenders. (Gilbart, History and Principles of Banking, pp. 164, 165.)

V.XXXVI.45

"I have been told that 10 gulden are now taken annually on every Leipsic fair, that is 30 on each hundred; some add the Neuenburg fair and make it 40 per hundred; whether that is so, I don't know. For shame, where the devil is that going to end?...Whoever has now 100 florins at Leipsic, takes 40 annually, which is the same as devouring

one peasant or burgher each year. If one has 1,000 florins, he takes 400 annually, which means devouring a knight or a rich noble per year. If one has 10,000 florins, he takes 4,000 per year, which means devouring a rich count each year. If one has 100,000 florins, as the great merchants must have, he takes 40,000 annually, which means devouring one great rich prince each year. If one has 1,000,000 florins, he takes 400,000 annually, which means devouring one great king each year. And he does not run any risks, either in his person or his wares, does not work, sits near his fireplace and roasts apples; so might a petty robber be sitting at home and devour a whole world in ten years." (Bücher vom Kaufhandel und Wucher, 1524. Luther's Works, Wittenberg, 1589, Part VI.)
V.XXXVI.46

"Fifteen years ago I wrote against usury, when it had spread so alarmingly, that I did not hope for any improvement. Since then it has become so proud, that it does not care to be classed as a vice, sin, or shame, but gets itself praised as a pure virtue and honor, just as though it were doing people a great favor and Christian service. What are we going to do now that shame has become honor and vice virtue? (Martin Luther, An die Pfarherrn wider den Wucher zu predigen. Wittenberg,1540.)

V.XXXVI.47

Jews, Lombards, usurers and bloodsuckers were our first bankers, our original bank sharks, their character being such as to be called almost infamous....They were joined by the London goldsmiths. On the whole...our original bankers...were a very bad crowd, they were greedy usurers, stony-hearted vampires. (J. Hardcastle, Banks and Bankers. Second edition, London, 1843, pages 19 and 20.)
V.XXXVI.48

The example given by Venice (in the matter of establishing a bank) was quickly imitated; all sea towns, and in general all towns which had made a name for themselves by their independence and their commerce, founded their first banks. The return of their ships, which often took a long time, led inevitably to the custom of giving credit, which was further intensified by the discovery of America and the commerce with it. (This is one of the main points.) The freighting of ships made the taking of heavy loans necessary, a thing already occuring in ancient Athens and Greece. In 1380 the Hansa town of Bruges had an insurance company. (M. Augier, l. c., pages 202 and 203.)
V.XXXVI.49

To what extent the making of loans to land owners, and to wealth consumers in general, still prevailed in the last third of the 17th century, even in England, before the development of the modern credit system, may be seen in the works of Sir Dudley North, among

others. He was not only one of the first English merchants, but also one of the most prominent theoretical economists of his time. And he says: The money loaned among our people at interest is not even to a tenth part given to business people for carrying on their affairs; it is loaned for the greater part for articles of luxury, and for the expenditures of people, who, although great real estate owners, nevertheless spend money faster than is made by their real estate; and since they hate to sell their estates, prefer to mortgage them. (Discourses upon Trade. London, 1691, pages 6 and 7.)
V.XXXVI.50

Poland in the 18th century: "Warsaw did a great business in exchange, which, however had for its principal basis and aim the usury of its bankers. In order to secure money, which they might lend to spendthrift nobles at 8% and more, they sought and obtained abroad an exchange credit in blank, that is, it had no commerce with commodities at all for a foundation, but the foreign endorser of the bill stood it patiently, so long as the returns from swindling with bills of exchange did not fail. However, they paid heavily for this by the bankruptcies of men like Tapper and other highly respected Warsaw bankers." (J. G. Büsch, Theoretisch-praktische Darstellung der Handlung, etc., third edition, Hamburg, 1808, volume II, pages 232 and 233.)

Advantage of the Prohibition of Interest for the Church.

V.XXXVI.51

"The taking of interest had been forbidden by the church. But the sale of property for the purpose of getting out of a tight place had not been forbidden. It had not even been forbidden to transfer property for a certain period to the money lender as a security, until such time as the debtor should repay his loan, so that the money lender might have the use of the property as a reward for the absence of his money....The church itself and the various corporations and communes belonging to it derived much profit from this practice, particularly during the period of the crusades. This brought a very large portion of the national wealth into the possession of the so-called 'dead hand,' all the more so because the Jews were barred from engaging in such usury, the possession of such fixed liens not being concealable....Without the ban on interest the churches and cloisters would never have become so rich." (L. c., p. 55.)

Notes for this chapter

114.
"It is in consequence of frequent pawning and redeeming within the same month, and of pawning one article in order to redeem another, and of thus obtaining a small difference in money, that the pawnshop interest becomes so excessive. In London there are 240 authorized

pawnshop owners, and in the provinces about 1450. The employed capital is estimated at about one million. It is turned over at least three times per year, and every time at an average of 33½%; so that the lower classes of England pay 100% annually for the temporary loan of one million, aside from losses due to lapses of pawned articles." (J. J. Tuckett, A History of the Past and Present State of the Labouring Population. London, 1846, I, p. 114.)

115.

Even in the titles of their works they state as their principal purpose "the general welfare of the landed proprietors, the great appreciation of the value of real estate, the liberation of the nobility and of the gentry, etc., from taxation, the augmentation of their annual income, etc." Only the usurers were to lose, those worst enemies of the nation, who had done more injury to the nobility and yeomanry than an army of invasion from France could have done.

116.

"Charles II. of England, for instance, still had to pay enormous interest of usury and agios to the gold smiths" (the precursors of the bankers), "as much as 20 to 30%." A business so profitable induced "the gold smiths to make more and more loans to the King, to anticipate the entire income on taxes to get a lien on every concession of Parliament in the way of money as soon as it had been made, also to compete against one another in buying up and giving pawn on bills, orders and tallies, so that in reality all incomes of the state passed through their hands." (John Francis, History of the Bank

of England, London, 1848, I p. 31.) "The erection of a bank had been suggested several times before that. It was at last a necessity" (L. c., p. 38). "The bank was a necessity for the government itself, sucked dry by usurers, in order to obtain money at a reasonable rate of interest, on the security of parliamentary concessions." (L. c., p. 59 and 60.)

117.

Marx would surely have modified this passage considerably, if he had worked his manuscript over. It was inspired by the role of the ex-Saint-Simonists under the second empire in France, where just at the time when Marx wrote the above the world-redeeming credit-phantasies of this school, by force of history as irony, were being realised in the shape of a swindle of a magnitude never witnessed before. Later Marx spoke only with admiration of the genius and encyclopedic brain of Saint-Simon. The peculiarity of this writer in ignoring the antagonism between the bourgeoisie and the proletariat that was just then coming into existence in France, and of counting that part of the bourgeoisie, which was active in production, among the travailleurs, corresponds to Fourier's conception, who wanted to reconcile capital and labor. This explains itself out of the economic and political conditions of France in those days. The fact that Owen was more farseeing in this respect is due to his different environment, for he lived in a period of industrial revolution and of class antagonism which were becoming acute.‘F. E.

118.

Karl Marx, The Poverty of Philosophy, 1847.‘Karl Marx, Critique of Political Economy, p. 107.

PART VI.
TRANSFORMATION OF SURPLUS PROFIT INTO GROUND-RENT.
Part VI,

Volume III Chapter XXXVII PRELIMINARIES.

VI.XXXVII.1

THE analysis of landed property in its various historical forms belongs outside of the limits of this work. We shall occupy ourselves with it in this place only to the extent that a portion of the surplus-value produced by the industrial capital falls into the hands of the land owner. We assume, then, that agriculture is dominated by the capitalist mode of production, just as manufacture is, in other words, that agriculture is carried on by capitalists, who differ primarily from the other capitalists only through the element, in which their capital and the wage-labor set in motion by this capital are invested. So far as we are concerned, the capitalist farmer produces wheat, etc., in the same way that the manufacturer produces yarn or machines. The assumption that the capitalist mode of production has seized agriculture implies that it rules all spheres of production and bourgeois society, so that its prerequisites, such as free competition among

capitals, the possibility of transferring them from one sphere of production to another, a uniform level of the average rate of profit, etc., are fully matured. The form of landed property which we consider here is a specifically historical one, a form altered through the influence of capital and of the capitalist mode of production, and evolved either out of feudal land ownership, or out of small peasants' agriculture carried on for a living, in which the possession of land constitutes one of the prerequisites of production for the direct producer, and in which his ownership of land appears as the most advantageous condition for the prosperity of his mode of production. Just as capitalist production is conditioned in a general way on the expropriation of the laborers from their requirements of production, so capitalist agriculture demands the expropriation of the rural laborers from the land and their subordination to a capitalist, who carries on agriculture for the sake of profit. For the results of our analysis the objection, that other forms of landed property and of agriculture have existed or still exist, is quite irrelevant. Such an objection cannot apply to any one else but to those economists, who treat of the capitalist mode of production in agriculture, and of the form of landed property corresponding to it, as though it were not a historical but an eternal category.

VI.XXXVII.2

For our purposes it is necessary to study the modern form of landed property, because it is our business to consider the typical conditions

of production and commerce, which arise from the investment of capital in agriculture. Without this our analysis of capital would not be complete. We therefore confine ourselves exclusively to the investment of capital in agriculture strictly so-called, that is, capital invested in the production of the principal plant crop, on which a certain population lives. We may say wheat, because it is the principal article of food among the modern capitalistically developed nations (or mining instead of agriculture, because the laws of both are the same).
VI.XXXVII.3

It is one of the great merits of Adam Smith to have shown that the ground rent for capital invested in the production of such crops as flax, dye stuffs, independent cattle raising, etc., is determined by the ground rent obtained from capital invested in the production of the principal article of subsistence. In fact no progress has been made in this since his time. What we might add in the way of exception or supplement belongs in a separate study of landed property, not here. Hence we shall not speak of landed property outside of the land destined for the production of wheat in the manner of exports, but shall merely refer to it occasionally by way of illustration.
VI.XXXVII.4

For the sake of completeness we shall remark, that we include also water, etc., in the term land, so far as it has an owner and belongs as an accessory to the soil.

VI.XXXVII.5

Landed property is conditioned on the monopolisation of certain portions of the globe by private persons, for the purpose of making these portions the exclusive spheres of their private will and keeping all others away from it.*119 With this in mind, the problem is to ascertain the economic value, that is, the employment of this monopoly on the basis of capitalist production. With the legal power of these persons to use or misuse certain portions of the globe nothing is settled. The use of this power depends wholly upon economic conditions, which are independent of their will. The legal conception itself signifies nothing else but that the land owner may do with the soil what the owner of commodities may do with them. And this conception, this legal conception of free property in land, arises in the ancient world only with the dissolution of the organic order of society, and in the modern world only with the development of capitalist production. Into Asia it has been imported by Europeans in but a few places. In that Part of our work, which deals with primitive accumulation (Volume I, chapter XXVI), we have seen that this mode of production presupposes on the one hand the separation of the direct producers from their position as mere attachments to the soil (in their capacity of bondsmen, serfs, slaves, etc.), on the other hand the expropriation of the mass of the people from the land. To this extent the monopoly of landed property is a historical premise, and remains the basis, of the capitalist mode of production, just as it does

of all other modes of production, which rests on the exploitation of the masses in one form or another. But that form of landed property, which the capitalist mode of production meets in its first stages, does not suit its requirements. It creates for itself that form of property in land, which is adapted to its requirements, by subordinating agriculture to the dominion of capital. It transforms feudal landed property, tribal property, small peasants' property in mark communes, whatever may be their legal form, into the economic form corresponding to the requirements of capitalism. It is one of the great outcomes of the capitalist mode of production, that it transforms agriculture from a merely empirical and mechanically perpetuated process of the least developed part of society into a consciously scientific application of agronomics, so far as this is at all feasible under the conditions going with private property;*120 that it detaches property in land on the one side from the relations between master and servant, and on the other hand totally separates land as an instrument of production from property in land and land owners, for whom it represents merely a certain tribute of money, which he collects by force of his monopoly from the industrial capitalist, the capitalist farmer. It dissolves all these connections so thoroughly, that the owner of the land may spend his whole life in Constantinople, while his estates are in Scotland. Private property in land thus receives its purely economic form by discarding all its former political and social trappings and implications, in brief all those traditional accessories, which are denounced as a useless and absurd attachment by the industrial capitalists and their theoretical

spokesmen in the heat of their struggle with landed property, as we shall see later. The rationalising of agriculture on the one hand and thus rendering it capable of operation on a social scale, and the reduction ad absurdum of private property in land on the other hand, these are the great merits of the capitalist mode of production. Like all its other historical advances it bought these also by first completely pauperizing the direct producers.
VI.XXXVII.6

Before we pass on to the problem itself, we must make a few more preliminary remarks in order to forestall misunderstanding.
VI.XXXVII.7

The premises for a capitalist production in agriculture are these: The actual tillers of the soil are wage-laborers, employed by a capitalist, the capitalist farmer, who carries on agriculture merely as a special field of exploitation for his capital, an investment of his capital in a special sphere of production. This renting capitalist pays to the land owner, the owner of the soil exploited by him, a sum of money at definite periods fixed by contract, for instance annually (just as the borrower of money-capital pays a fixed interest), for the permission to invest his capital in this particular sphere of production. This sum of money is called ground-rent, no matter whether it is paid for agriculture soil, building lots, mines, fishing grounds, forests, etc. It is paid for the entire time, during which the land owner has rented his

land to the capitalist by contract. Ground-rent, therefore, is that form, in which property in land realizes itself economically, that is, produces value. Here, then, we have all three classes together, which constitute the frame work of modern society, and they have divergent interests' wage-laborers, industrial capitalists, land owners.
VI.XXXVII.8

Capital may be fixed in the soil, may be incorporated in it, either in a transient manner, as it is by improvements of a chemical nature, fertilization, etc., or more permanently, as in drainage canals, irrigation works, leveling, farm buildings, etc. In another place I have called the capital thus incorporated in the soil land-capital.*121 It belongs in the categories of fixed capital. The interest on the capital thus incorporated in the soil and the improvements thus made in it as an instrument of production may form a part of the rent paid by the capitalist farmer to the land owner,*122 but it does not constitute that ground-rent, strictly speaking, which is paid for the use of the soil as such, whether it be in a natural state or cultivated. In a systematic treatment of private property in land, which is not included in our plan, this part of the revenue of the land owner would have to be discussed at length. But a few words about it will suffice here. The more transient investments of capital which go with the ordinary processes of production in agriculture, are made without exception by the capitalist farmer. These investments, like cultivation proper, improve the soil,*123 if cultivation is carried on in a moderately

rational manner and does not reduce itself to a brutal spoilation of the soil, such as used to be in vogue among the former slave holders in the United States, a thing against which the land owners may provide by contract. In this way material land is transformed into land-capital. A cultivated field is worth more than an uncultivated one of the same natural quality. Likewise the more permanent fixed capitals, which are incorporated in the soil and worn out in longer time, are largely, and in some spheres often exclusively, invested by the capitalist farmer. But as soon as the time stipulated by contract has expired‘and this is one of the reasons why the land owners seek to shorten the time of contract as much as possible when capitalist production develops‘the improvements embodied in the soil become the property of the land owner as an inseparable part of the land. In the new contract, which the land owner makes, he adds the interest for the capital incorporated in the soil to the real ground-rent. And he does this whether he leases the land to the same capitalist who made these improvements or to some other capitalist farmer. His rent is thus increased; or, if he wishes to sell his land (we shall see immediately how its price is determined), its value has risen. He sells not merely the soil, but the improved soil, the capital incorporated in the soil for which he did not pay anything. Quite aside from the movements of real ground-rent, this is one of the secrets of the increasing enrichment of the land owners, of the continuous inflation of their rents, and of the growing money-value of real estate in proportion as economic development proceeds. Thus they pocket a

result of social development brought about without their help, fruges consumere nati, they are born to consume the fruits of the earth. But this is at the same time one of the greatest obstacles to a rational development of agriculture, because the capitalist renter avoids all improvements and expenses, for which he cannot expect any returns during the time of his lease. We find this fact denounced as such an obstacle, not only in the 18th century by James Anderson, the actual discoverer of the modern theory of rent, who was also a practical capitalist farmer and an advanced agronomist for his time, but also in our own days by the opponents of the present constitution of landed property in England.
VI.XXXVII.9

A. A. Walton, in his "History of the Landed Tenures of Great Britain and Ireland," London, 1865, says on this score: All the efforts of the numerous agricultural institutes in our country cannot accomplish any very important or really appreciable results in the actual progress of improved cultivation, so long as such improvements increase in a far higher degree the value of real estate and the size of the rent roll of the land owner, than they improve the condition of the tenant or the farm laborer. The tenants in general know quite as well as the land owner, his rent collector, or even the president of an agricultural society, that good drainage, ample manuring, and good management, together with an increased application of labor, cleaning the land thoroughly and working it over, will produce wonderful results, both in

the improvement of the soil and in an increased production. But all this demands considerable expense, and the tenants also know very well, that no matter how much they may improve the soil or raise its value, the land owner will in the long run get the principal benefit of it in raised rents and increased land values....They are cunning enough to observe, what those speakers [land owners and their agents speaking at agricultural feasts] always forget to tell them, namely that the lion's share of all improvements made by the tenants must always pass ultimately into the pockets of the land owners....No matter how much the former tenant may have improved his leasehold, his successor will always find, that the land owner will raise the rent in proportion to the increased land value due to previous improvements. (Pages 96 and 97.)
VI.XXXVII.10

In agriculture proper this process does not yet appear quite so plainly as when the land is used for building lots. The overwhelming part of the land used in England for building purposes, but not sold as a freehold, is rented by the land owners for 99 years, or for a shorter time if possible. After the lapse of this time the buildings fall into the hands of the land owner together with the land. The tenants are obliged, says Walton, to deliver the house to the great land owner in a good inhabitable condition after the expiration of the lease, after they have paid up to this time an exorbitant ground-rent. Hardly has the lease expired, when the agent or inspector of the landlord comes,

inspects your house, takes care that you get it into good condition, takes possession of it and annexes it to the domain of his landlord. The fact is that if this system is permitted to exert its full effects for some time longer, the entire ownership of houses as well as of country real estate will be in the hands of the great landed proprietors. The whole West End of London, north and south of Temple Bar, belongs almost exclusively to half a dozen great landlords, is rented at enormous ground-rents, and if the leases have not quite expired, most of them expire in rapid succession. The same applies in a greater or smaller degree to every city in the Kingdom. But even here this greedy system of exclusiveness and monopoly does not stop. Nearly all the docking facilities of our port cities are in the hands of the great land leviathans in consequence of the same process of usurpation. (L. c., p. 93.) Under these circumstances it is evident that if the census for England and Wales in 1861 gives the total population as 20,066,224 and the number of house owners as 36,032, the proportion of the owners to the number of houses and to the population would take on a very different aspect, if the great house owners were placed on one side and the small ones on the other.

VI.XXXVII.11

This illustration of property in buildings is important. In the first place, it clearly shows the difference between real ground-rent and interest on fixed capital incorporated in the soil, which may form an addition

to the ground-rent. The interest on buildings, like that on capital incorporated in the soil by the tenant, falls into the hands of the industrial capitalist, the building speculator, or the tenant, so long as the lease lasts, and has in itself nothing to do with the ground-rent, which must be paid annually at stated dates for the use of the soil. In the second place it shows, that the capital incorporated in the soil ultimately passes into the hands of the landlord together with the land, and that the interest on it helps to swell his rent.
VI.XXXVII.12

Some writers, either acting as spokesmen of landlordism against the attacks of bourgeois economists, or endeavoring to transform the capitalist system of production from a system of antagonisms into one of "harmonies," as did Carey, have tried to represent ground-rent, the specific economic expression of private property in land, as identical with interest. For this would obliterate the antagonism between landlords and capitalists. The opposite method was employed in the beginning of capitalist production. In those days landed property was still regarded by popular conception as the primitive and respectable form of private property, while interest on capital was decried as usury. Dudley North, Locke and others, therefore represented interest on capital as a form analogous with ground-rent, just as Turgot deduced the justification of interest from the existence of ground-rent. ‘Aside from the fact that ground-rent may, and does, exist in its pure form without any addition for interest on capital incorporated in the

soil, these more recent writers also forget, that in this way the landlord does not only receive interest on the capital of other people that cost him nothing, but also pockets this capital of others without any compensating return. The justification of private property in land, like that of all other forms of property within a certain mode of production, is that the mode of production is itself a transient historical necessity, and this includes the conditions of production and exchange, which flow from it. It is true, as we shall see later, that property in land differs from the other kinds of property by the fact that it appears superfluous, and even noxious, at a certain stage of development, even from the point of view of capitalist production. VI.XXXVII.13

In another form, ground-rent may be confounded with interest and its specific character overlooked. Ground-rent assumes the shape of a certain sum of money, which the landlord draws annually out of the lease of a certain piece of the globe. We have seen that every sum of money may be capitalised, that is, considered as the interest on an imaginary capital. For instance, if the average rate of interest is 5%, then an annual ground-rent of 200 pounds sterling may be regarded as the interest on a capital of 4,000 pounds sterling. Ground-rent so capitalised forms the purchase price or value of the land, a category which is on its face irrational, just as the price of labor is, since the earth is not the product of labor and therefore has no value. But on the other hand a real relation in production is concealed behind this

irrational form. If a capitalist buys land yielding a rent of 200 pounds sterling annually and pays 4,000 pounds sterling for it, then he draws the average interest of 5% on his capital of 4,000 pounds sterling, just as though he had invested this capital in interest-bearing papers or loaned it directly at 5% interest. It is the utilisation of a capital of 4,000 pounds sterling at 5%. On this assumption he would recover the purchase price of his estate in twenty years by its revenues. In England, therefore, the purchase price of land is calculated on so many years' purchase, and this is merely a different expression for the capitalisation of the ground-rent. It is in fact the purchase price, not of the land, but of the ground-rent yielded by it, calculated on the ordinary rate of interest. But this capitalisation of rent has for its premise the existence of rent, for rent cannot be explained and derived from its own capitalisation. Its existence, independent of its sale, is rather the condition from which the inquiry must start.
VI.XXXVII.14

It follows, then, that the price of land may rise or fall inversely as the rate of interest rises or falls, if we assume that ground-rent is a constant magnitude. If the ordinary rate of interest should fall from 5% to 4%, then the annual ground-rent of 200 pounds sterling would represent the annual self-expansion of a capital of 5,000 pounds sterling instead of 4,000 pounds sterling. The price of the same piece of land would thus have risen from 4,000 to 5,000 pounds sterling, or from 20 years' to 25 years' purchase. The reverse would take place in

the opposite case. This is a movement of the price of land, which is independent of the movement of ground-rent itself and regulated only by the rate of interest. But as we have seen that the rate of profit has a tendency to fall in the course of social progress, and that the rate of interest has the same tendency, so far as it is regulated by the rate of profit; and since, furthermore, the rate of interest has a tendency to fall in consequence of the growth of loanable capital, aside from the influence of the rate of profit, it follows that the price of land has a tendency to rise, even independently of the movement of ground-rent and the prices of the products of the soil, of which the rent forms a part.
VI.XXXVII.15

The mistaking ground-rent for the interest form, which it assumes for the buyer of the land‘a mistake due to a complete unfamiliarity with the nature of ground-rent‘must lead to the most absurd conclusions. Since landed property is considered, in all old countries, as a particularly noble form of property, and its purchase also as an eminently safe investment of capital, the rate of interest at which ground-rent is bought is generally lower than that of other investments of capital for a long time, so that a buyer of real estate draws, for instance, only 4% on his purchase price, whereas he would draw 5% for the same capital in other investments. In other words, he pays more capital for the ground-rent than he would for the same amount of income in other investments. This leads Mr. Thiers to

conclude in his utterly valueless work on La Propriété (a reprint of a speech of his made in 1849 against Proudhon in the French National Assembly) that ground-rent is low, while it proves merely that its purchase price is high.
VI.XXXVII.16

The fact that capitalised ground-rent represents itself as the price or value of land, so that the earth is bought and sold like any other commodity, serves to some apologists as a justification of private property in land, seeing that the buyer pays an equivalent for it the same as he does for other commodities, and that the major portion of property in land has changed hands in this way. The same reason would, in that case, serve also to justify slavery, since the returns from the labor of the slave, whom the slave holder has bought, represent merely the interest on the capital invested in this purchase. To derive from the sale and purchase of ground-rent a justification for its existence signifies to justify its existence by its existence.
VI.XXXVII.17

It is very important for a scientific analysis of ground-rent, that is of the independent and specifically economic form of property in land on the basis of capitalist production, to study it in its pure form and free from all falsifying and obliterating by-work. And it is no less important for an understanding of the practical effects of property in land, even for a theoretical comprehension of a multitude of facts, which run

counter to the conception and nature of ground-rent and yet appear as modes of existence of ground-rent, to know the elements which give rise to such obscurities in theory.
VI.XXXVII.18

In practice everything appears naturally as ground-rent that is paid in the form of lease money by the tenant to the landlord for the permission of cultivating the soil. Whatever may be the composition of this tribute, whatever may be its sources, it has this in common with real ground-rent that the monopoly of the so-called owner of a piece of the globe enables him to levy such a tribute and impose such a tax. This tribute furthermore shares with the real ground-rent the fact that it determines the price of land, which, as we have indicated above, is nothing but the capitalised income from the lease of the land.
VI.XXXVII.19

We have already seen, that the interest for the capital incorporated in the soil may form one of those foreign ingredients in ground-rent, an element which must become a continually growing addition to the total rent of a certain country in proportion as economic development proceeds. But aside from this interest it is possible that the lease money may conceal a deduction from the average profit or from the normal wages, or both, being made up of them either in part or wholly, so that in some cases it may not represent any real ground-

rent at all and the soil may be valueless. This portion of the profit, or of wages, appears then as ground-rent, because instead of falling normally into the hands of the industrial capitalist or the wage worker, it is paid to the land-lord in the form of lease money. Economically speaking neither the one nor the other of these portions constitutes any ground-rent; but in practice they constitute some of the revenue of the landlord, an economic utilisation of his monopoly, just as real ground-rent does, and they have a determining influence on land prices just as ground-rent has.
VI.XXXVII.20

We are not now speaking of conditions, in which ground-rent, the form of landed property adapted to the capitalist mode of production, formally exists without the capitalist mode of production itself, so that the tenant is not an industrial capitalist, nor the mode of his management a capitalist one. Such is the case in Ireland. The tenant is here generally a small farmer. What he pays to the landlord in the shape of rent absorbs frequently not merely a part of his profit, that is, of his own surplus-labor, to which he is entitled as the possessor of his own instruments of production, but also a part of his normal wages, which he would receive under different conditions for the same amount of labor. Besides, the landlord, who does not do anything for the improvement of the soil, also expropriates him from his small capital, which he incorporates for the greater part in the soil by his own labor, just as a usurer would do under similar circumstances.

Only the usurer would at least risk his own capital in the operation. This continual robbery is the center of the disputes over the Irish Land Bill, which has for its principal aim to compel the landlord, when giving notice to his tenant to vacate, should pay him an indemnity for the improvements made by him in the soil, or for the capital incorporated by him in the land. Palmerston used to meet this demand with the cynical answer: "The House of Commons is a house of landlords."
VI.XXXVII.21

Nor do we speak of exceptional circumstances, in which the landlord may enforce a high rent even in countries with a capitalist production, although this rent may not be in any way connected with the product of the soil. Of such a nature is the renting of small patches of ground to laborers in English factory districts, either for small gardens or for amateur agriculture in spare hours. (Reports of Inspectors of Factories.)
VI.XXXVII.22

We are speaking of ground-rent in countries with a developed capitalist production. Among English tenants, for instance, there is a number of small capitalists, who are destined and compelled by education, training, tradition, competition, and other circumstances, to invest their capital as tenants in agriculture. They are compelled to be satisfied with less than the average profit, and to yield up a part of it

to the landlords for rent. This is the only condition on which they are permitted to invest their capital in the soil, in agriculture. Since the landlords exert everywhere a considerable, in England even an overwhelming, influence on legislation, they are in a position to exploit this for the purpose of grinding down the entire class of tenants. The corn laws of 1815, for instance, a bread tax confessedly imposed upon the country for the purpose of securing for the idle landlords a continuation of their abnormally increased rentals during the anti-Jacobin wars, had indeed the effect, with the exception of a few extraordinarily rich years, of keeping the prices of agricultural products above the level which they could have held in free competition. But they did not have the effect of keeping prices at that level, which had been ordered by the law-making landlords to serve as standard prices in such a way as to form the legal limit for the importation of foreign corn. But the leases were made out under the impression created by these normal prices. As soon as the illusion passed away, a new law was made, with new normal prices, which were as much an impotent expression of the greedy land-lord's phantasy as the old ones. In this way the tenants were cheated from 1815 to the thirties. Hence we have during all this period the standing subject of agricultural distress. And with it we have during this period the expropriation and the ruin of a whole generation of tenants, and the appropriation of their places by a new class of capitalists.*124

VI.XXXVII.23

A much more general and important fact, however, is the depression of the wages of the actual farm laborers below their normal average, so that a portion of the wages is deducted in order to become a part of the lease money and thus flowing into the pockets of the landlord instead of the laborer under the disguise of ground-rent. This is the case quite generally in England and Scotland, with the exception of a few favorably situated counties. The inquiries of the Parliamentarian Committees into the scale of wages made before the passing of the corn laws in England‘so far the most valuable and almost unexploited contributions to a history of wages in the 19th century, and at the same time a monument of disgrace erected for themselves by the English aristocracy and bourgeoisie‘proved convincingly and beyond a doubt that the high rates of rent and the corresponding raise in the land prices during the anti-Jacobin wars, were due in part to no other cause but the deductions from wages and the depression of wages even below the physical minimum. In other words, a part of the wages had been paid over to the landlords. Various circumstances such as the depreciation of money, the handling of the poor laws in the agricultural districts, etc., had made these operations possible, at a time when the incomes of the tenants were rising enormously and the landlords amassed fabulous riches. Yes, one of the main arguments for the introduction of the corn laws, used by both tenants and landlords, was that it was physically impossible to depress the wages of the farm laborers still more. This condition of things has not been materially altered, and in England as well as in all European countries

a portion of the normal wages is absorbed by the ground-rent the same as ever. When Count Shaftsbury, then Lord Ashley, one of the philanthropic aristocrats, was so extraordinarily moved by the condition of the English factory laborers and acted as their spokesman in Parliament during the agitation for a ten hour day, the spokesmen of the industrials got their revenge by publishing statistics on the wages of the agricultural laborers in the villages belonging to him (see Volume I, chapter XXV, 5e, The British Agricultural Proletariat), which showed clearly, that a portion of the ground-rent of this philanthropist consisted of the loot, which his agents filched for him out of the wages of the agricultural laborers. This publication is also interesting for the reason, that the facts exposed by it may rank in the same class with the worst exposures made by the Committees in 1814 and 1815. As soon as circumstances permit of a temporary raise in the wages of the agricultural laborers, a cry goes up from the capitalist tenants to the effect that a raising of the wages to their normal level, as customary in other lines of industry, would be impossible and would ruin them, unless ground-rent were reduced at the same time. This is a confession, that the tenants deduct a portion from the wages of the laborers under the name of ground-rent and pay it over to the landlords. For instance, from 1849 to 1859 the wages of the agricultural laborers rose in England through a combination of overwhelming circumstances, such as the exodus from Ireland, which cut off the supply of agricultural laborers coming from that country; an extraordinary absorption of the agricultural population by the

factories; a demand for soldiers to go to war; an exceptional emigration to Australia and the United States (California), and other causes which need not be mentioned here. At the same time the average prices of grain fell by more than 16% during this period, with the exception of the poor agricultural years from 1854 to 1856. The tenant capitalists shouted for a reduction of their rents. They succeeded in single cases. But on the whole they failed to get what they wanted. They sought refuge in a reduction of the cost of production, among other things by introducing steam engines and new machinery in abundance, which partly replaced horses and crowded them out of the business, but partly also created an artificial overpopulation by throwing agricultural laborers out of work and thereby causing a fall in wages. And this took place in spite of the general relative decrease of the agricultural population during that decade, compared to the growth of the total population, and in spite of the absolute decrease of the agricultural population in some purely agricultural districts.*125 In the same way Fawcett, then professor of political economy at Cambridge, who died in 1884 as Postmaster General, said at the Social Science Congress, October 12, 1865: "The agricultural laborers began to emigrate and the tenants began to complain, that they would not be able to pay such high rents as they had been accustomed to pay, because labor became dearer in consequence of emigration." Here, then, the high ground-rent is directly identified with low wages. And so far as the level of the prices of land is determined by this circumstance increasing the rent,

a rise in the value of the land is identical with a depreciation of labor, a high price of land with a low price of labor.
VI.XXXVII.24

The same is true of France. "The price of rent rises, because the prices of bread, wine, meat, vegetables and fruit rise on the one side, while on the other the price of labor remains unchanged. If the older people compare the bills of their fathers, taking us back about 100 years, they will find that the price of one day's labor was then the same in rural France as it is now. The price of meat has trebled since them....Who is the victim of this revolution? Is it the rich, who is the proprietor of the estate, or the poor who works it?...The raising of the prices of rent is the proof of a national disaster." (Du Mécanisme de la Société en France et en Angleterre. Par M. Rubichon, Second edition, Paris, 1837, p. 101.)
VI.XXXVII.25

We now give some illustrations of rent representing deductions either from the average profit or from the average wages.
VI.XXXVII.26

The above quoted Morton, real estate agent and agricultural engineer, says that the observation has been made in many localities that the rent for large estates is smaller than for small ones, because "competition for the latter is generally greater than for the former,

and because small tenants, who are rarely able to take up any other business but farming, are frequently willing to pay a rent, which they themselves know to be too high, pressed by the want of finding some other business." (John C. Morton, The Resources of Estates. London, 1858, p. 116.)
VI.XXXVII.27

However, he is of the opinion that this difference is gradually disappearing in England, and he attributes this largely to the emigration of the class of small tenants. The same Morton gives an illustration, in which evidently the wages of the tenant himself, and still more surely of the laborers, suffer a deduction for ground-rent. This takes place in the case of estates of 70 to 80 acres, who cannot keep a two-horse plow. "Unless the tenant works as diligently with his own hands as any laborer, he cannot make out on his lease. If he leaves the execution of the work to his men and confines himself to superintending them, he will most likely find very quickly that he is unable to pay his rent." (L. c., p. 118.) Morton concludes, therefore, that unless the tenants of a certain locality are very poor, the leaseholds should not be smaller than 70 acres, so that the tenants may keep two or three horses.
VI.XXXVII.28

Extraordinary wisdom of Monsieur Léonce de Lavergne, Membre de l'Institut et de la Société Centrale d'Agriculture. In his Economic

Rurale de l'Angleterre (quoted from the English translation, London, 1855), he makes the following comparison of the annual advantages from cattle, that work in France but not in England, where they are replaced by horses (p. 42):

FRANCE	ENGLAND
Milk... 4 million p.st.	Milk... 16 million p.st.
Meat... 16 million p.st.	Meat... 20 million p.st.
Labor... 8 million p.st.	Labor...
28 million p.st.	36 million p.st.

VI.XXXVII.29

But the higher amount for England is obtained here, according to his own statement, because milk is twice as dear in England than in France, while he counts the same prices for meat in both countries (p. 35); therefore the English milk product reduces itself to 8 million pounds sterling, and the total product to 28 million pounds sterling, the same as in France. It is indeed a strong dose, that Mr. Lavergne lumps the quantities and price differences together in his calculation, when England produces certain articles more expensively than France, so that this appears as an advantage of English agriculture, whereas it signifies at best only a higher profit for tenants and landlords.

VI.XXXVII.30

That Mr. Lavergne is not only familiar with the advantages of English agriculture, but also believes in the prejudices of the English tenants and landlords, is proved by him on page 48: "One great disadvantage is generally connected with grain plants...they exhaust the soil that bears them." Mr. Lavergne believes not only that other plants do not do so, but he also believes that leguminous crops and root crops enrich the soil: "Leguminous plants draw the principal elements of their growth out of the air, while they give back to the soil more than they take from it; therefore they help both directly and indirectly through their return in the shape of animal manure to make good in a double way the damage caused by grain crops and other exhausting crops; hence it is a matter of principle that they should at least alternate with such crops; in this consists the Norfolk rotation." (Pages 50 and 51.)
VI.XXXVII.31

No wonder that Mr. Lavergne, who believes these fairy tales of the English rural mind, also believes that the wages of the English farm laborers have lost their abnormality since the repeal of the corn tax. See what we have said on this point in another place, Volume I, chapter XXV, 5c, pages 739 to 766. But let us also listen to Mr. John Bright's speech in Birmingham, December 14, 1865. After mentioning the 5 million families that are not represented in Parliament, he continues: "Among these are one million, or rather more than one million in the United Kingdom, who are put down on the luckless list

of paupers. Then there is still another million, who are holding themselves just above pauperism, but who are continually in danger of likewise becoming paupers. Their condition and prospects are not any better. Now take a look at the ignorant lower strata of this portion of society. Consider their outcast condition, their poverty, their complete hopelessness. Even in the United States, even in the southern states during the reign of slavery, every negro looked forward to some jubilee year. But these people, this mass of the lowest strata of our country, I am here to express it, have neither the faith in any improvement nor even a longing for it. Did you read the other day that item about John Cross, a farm laborer of Dorsetshire? He worked six days in the week, had an excellent character from his employer, for whom he had worked 24 years for a weekly wage of 8 sh. John Cross had to keep a family of seven children in his hut out of this wage. In order to warm his sickly wife and her suckling babe, he took, or legally speaking he stole, a wooden hurdle worth six pence. For this crime he was sentenced to 14 or 20 days' imprisonment by the justices of the peace. I can tell you that many thousands of cases like that of John Cross may be found in the whole country, and particularly in the South, and that their condition is such, that so far the most sincere investigator has not been able to solve the secret, how they keep body and soul together. And now throw your glances over the whole country and look at those 5 million families and the desperate condition of this stratum of them. Can we not say truly that the mass of the nation excluded from the suffrage toils and toils

again and knows almost no rest? Compare them with the ruling class‘ but if I do that I shall be accused of communism...but compare this great toiling and suffrageless nation with that part which may be regarded as the ruling class. Look at their wealth, their showiness, their luxury. Look at their weariness‘for there is a weariness also among them, but it is the weariness of satiety‘and see how they hasten from place to place, as though it were only a question of discovering new pleasures." (Morning Star, December 15, 1865.) VI.XXXVII.32

We will show hereafter, in what manner surplus-labor, and consequently surplus-products, are confounded with ground-rent, which is, at least under the capitalist mode of production, qualitatively and quantitatively a specifically determined part of the surplus-product. The natural basis of surplus-labor in general, that is a natural condition without which such labor cannot be performed, is that nature must supply, either in animal or vegetable products of the soil or in fisheries, etc., the necessary means of subsistence by an expenditure of labor which does not consume the entire working day. This natural productivity of agricultural labor (which implies here the labor of gathering, hunting, fishing, cattle raising) is the basis of all surplus-labor; so is all labor primarily and originally directed toward the appropriation and production of food. (The animal supplies at the same time skins for warmth in colder climates; also cave dwellers, etc.)

VI.XXXVII.33

The same confusion between surplus-product and ground-rent, differently expressed, is shown by Mr. Dove. Originally agricultural and industrial labor are not separated. The second joins into the first. The surplus-labor and the surplus-product of the farming tribe, the house commune or family, comprise both agricultural and industrial labor. Both go hand in hand. Hunting, fishing, agriculture are impossible without suitable tools. Weaving, spinning, etc., were first carried on as side occupations to farming.

VI.XXXVII.34

We have shown previously, that in the same way in which the labor of the individual workman may be separated into necessary and surplus-labor, the aggregate labor of the working class may be divided so that that portion, which produces the total means of subsistence for the working class (including the means of production required for this purpose) performs the necessary labor for the whole society. The labor performed by all the remainder of the working class may then be regarded as surplus-labor. But the necessary includes by no means only agricultural labor, but also that labor which produces all other products that necessarily pass into the average consumption of the laborer. Socially speaking, some perform only necessary, others only surplus-labor, and vice versa. It is but a division of labor between them. It is the same with the division of labor between agricultural

and industrial laborers in general. The purely industrial character of labor on the one side is offset by the purely agricultural one on the other. This purely agricultural labor is by no means natural, but is rather a product, and a very modern one at that, which has not yet been acquired everywhere, of social development, and it corresponds to a very definite stage of development. Just as a portion of the agricultural labor is materialised in products, which either minister only to luxury or serve as raw materials in industry, but do not serve as food, particularly not as food for the masses, so a portion of the industrial labor is materialised in products, which serve as necessary means of consumption of both the agricultural and industrial laborers. It is a mistake to consider this industrial labor, from a social point of view, as surplus-labor. It is in part as much necessary labor as the necessary portion of the agricultural labor. It is likewise but a separated form of a part of industrial labor which was formerly naturally connected with agricultural labor, it is a necessary and mutual supplement to the purely agricultural labor, which is now separated from it. (From a purely material point of view 500 mechanical weavers may produce surplus-fabrics to a far greater degree, that is, more than is required for their own clothing.) VI.XXXVII.35

It should finally be remembered in the study of the various forms which appear as ground-rent, that is, of the lease money paid under the name of ground-rent to the landlord for the use of the land for

the purposes of production or consumption, that the price of things, which have in themselves no value, not being the products of labor, such as the land, or which at least cannot be reproduced by labor, such as antiquities, works of art of certain masters, etc., may be determined by many accidental combinations. In order to sell a thing, nothing more is required than that it can be monopolised and alienated.

VI.XXXVII.36

There are three great errors, which should be avoided in the study of ground-rent, and which obscure its analysis.
VI.XXXVII.37

1) Confusion of the various forms of rent, which correspond to different stages of development of the process of social production.
VI.XXXVII.38

Whatever may be the specific form of rent, all types of it have this in common that the appropriation of rent is that economic form, in which property in land realises itself, and that ground-rent on its part is conditioned on the existence of private property in land, the ownership of certain portions of the globe by certain individuals. The owner may be the individual representing the community, as in Asia, Egypt, etc., or this private ownership in land may be merely accessory to the

ownership of the persons of the direct producers by some individuals, as under the slave or serf system, or it may be a purely private ownership of nature by nonproducers, a mere title to land, or finally it may be a relation to the soil which, as in the case of colonists and small peasants owning land, seems included under a system of isolated and unsocial labor in the appropriation and production of the products of certain pieces of land by the direct producers.
VI.XXXVII.39

This common element in the various forms of rent, namely that of being the economic realisation of property in land, a legal fiction by grace of which certain individuals have an exclusive right to certain pieces of the globe, misleads into overlooking the differences.
VI.XXXVII.40

2) All ground-rent is surplus-value, the product of surplus-labor. In its undeveloped form, as natural rent (rent in kind), it is as yet directly the surplus-product itself. This gives rise to the mistaken idea that the rent corresponding to the capitalist mode of production is explained by merely explaining the general prerequisites of surplus-value and profit, whereas this ground-rent is always a surplus over and above profit. It is a peculiar and specific portion of surplus-value, over and above that portion of the value of commodities, which is known as profit and consists itself of surplus-value (surplus-labor). The general conditions for the existence of surplus-value and profit are: The direct producers

must work beyond the time necessary for the reproduction of their own labor-power. They must perform surplus labor in general. This is the subjective condition. The objective condition is that they must be able to perform surplus-labor. The natural conditions must be such that a part of their available labor time suffices for their reproduction and selfmaintenance as producers, that the production of their necessary means of subsistence shall not consume their whole labor-power. The fertility of nature forms a limit here, a starting point, a basis. The development of the social productivity of their labor forms the other limit. Still more strictly speaking, since the production of means of subsistence is the very first condition of their existence and of all production, the labor used in this production, that is the agricultural labor in the widest economic meaning, must be productive enough, so that it will not absorb the entire available labor time in the production of means of subsistence for the direct producers. Agricultural surplus-labor and an agricultural surplus-product must be possible. More widely applied, it means that the total agricultural labor, both necessary and surplus-labor, of a part of society suffices to produce the necessary subsistence for the whole society, including the laborers who are not agricultural. It means that this great division of labor between farmers and industrials must be possible, also that between farmers producing subsistence and farmers producing raw materials. Although the labor of the producers of subsistence consists of necessary and surplus-labor, so far as their own point of view goes, it represents from the social standpoint only the labor necessary

to produce the social subsistence. The same takes place in the case of division of labor within society as a whole, as distinguished from division of labor in the individual workshop. It is the labor necessary for the production of particular articles, for the satisfaction of some particular need of society. If this division is proportional, then the products of the various groups are sold at their values (at a later stage of development at their prices of production), or at prices which are modifications of their values or prices of production due to general laws. It is indeed the law of value enforcing itself, not with reference to individual commodities or articles, but to the total products of the particular social spheres of production made independent by division of labor. Every commodity must contain the necessary quantity of labor, and at the same time only the proportional quantity of the total social labor time must have been spent on the various groups. For the use-value of things remains a prerequisite. The use-value of the individual commodities depends on the particular need which each satisfies. But the use-value of the social mass of products depends on the extent to which it satisfies in quantity a definite social need for every particular kind of product in an adequate manner, so that the labor is proportionately distributed among the different spheres in keeping with these social needs, which are definite in quantity. (This point is to be noted in the distribution of capital to the various spheres of production.) The social need, that is the use-value on a social scale, appears here as a determining factor for the amount of social labor which is to be supplied by the various particular spheres. But it is

only the same law, which showed itself in the individual commodity, namely that its use-value is the basis of its exchange-value and thus of its surplus-value. This point has any bearing upon the proportion between necessary and surplus-labor only in so far as a violation of this proportion makes it impossible to realise the value of the commodities and the surplus-value contained in it. For instance, take it that proportionally too much cotton goods have been produced, although only the labor-time necessary for this total product under the prevailing conditions is realised in it. But too much social labor has been expended in this particular line, in other words, a portion of this product is useless. The whole of it is therefore sold only as though it had been produced in the necessary proportion. This quantitative limit of the quota of social labor available for the various particular spheres is but a wider expression of the law of value, although the necessary labor time assumes a different meaning here. Only just so much of it is required for the satisfaction of the social needs. The limitation is here due to the use-value. Society can use only so much of its total labor for this particular kind of products under the prevailing conditions of production. But the subjective and objective conditions of surplus-labor and surplus-value in general have nothing to do with the peculiar form of either the profit or the rent. These conditions apply to surplus-value as such, no matter what special form it may assume. Hence they do not explain ground-rent.

VI.XXXVII.41

3) It is precisely the self-expansion of private property, the development of ground-rent, which reveals the characteristic peculiarity, that its amount is by no means determined by the actions of its recipient, but by the independent development of social labor, in which he does not take part. It may easily happen, therefore, that something is regarded as a peculiarity of rent (and of the products of agriculture in general), which is really a common feature of all lines of production and all their products on the basis of the production of commodities, or, more strictly speaking, of capitalist production. VI.XXXVII.42

The amount of ground-rent (and with it the value of the soil) develops with the progress of social advance as a result of the total labor of society. On the one hand this leads to a growth of the market and of the demand for products of the soil, on the other it stimulates the demand for the land itself, which is a prerequisite of competitive production in all lines of business, even in those which are not agricultural. Speaking strictly of real-ground rent, this rent, and with it the value of the soil, develops with the market for the products of the soil, and thus with the increase of the other than agricultural population, with its needs and demand for either means of subsistence or raw materials. It is the nature of capitalist production to reduce the agricultural population continually as compared to the non-agricultural, because in industry (strictly speaking) the increase of the constant capital compared to the variable capital goes hand in

hand with an absolute increase, though relative decrease, of the variable capital; whereas in agriculture the variable capital required for the exploitation of a certain piece of land decreases absolutely and cannot increase, unless new land is taken into cultivation, which implies a still greater previous growth of the non-agricultural population.
VI.XXXVII.43

In fact we are not dealing here with a characteristic peculiarity of agriculture and its products. On the contrary, the same applies to all other lines of production and products on the basis of a production of commodities and of its absolute form, capitalist production.
VI.XXXVII.44

These products are commodities, use-values, which have an exchange-value which can be realised, converted into money, only to the extent that other commodities form an equivalent for them, that other products face them as commodities and values. They have an exchange-value to the extent that they are not produced as immediate means of subsistence for the producers themselves, but as commodities, as products which become use-values only by their conversion into exchange-values (money), by being gotten rid of. The market for these commodities develops through the social division of labor; the separation of the productive labor into various departments transforms their respective products mutually into commodities, into

mutual equivalents, makes them serve mutually as markets. This is in no way peculiar to agricultural products.
VI.XXXVII.45

Rent can develop as money-rent only on the basis of a production of commodities, more strictly of capitalist production, and it so develops in proportion as the agricultural production becomes a production of commodities. This is the same proportion in which other than agricultural lines of production develop independently of agriculture, for to that extent does the agricultural product become a commodity, an exchange-value, a value. To the same extent that the production of commodities develops as a capitalist production, and as a production of value, does the production of surplus-value and surplus-products proceed. But to the same extent that this continues does property in land acquire the faculty of capturing an ever increasing portion of this surplus-value by means of its land monopoly. Thereby it raises its rent and the price of the land itself. The capitalist performs at least an active function himself in the development of surplus-value and surplus-products. But the land owner has but to capture his growing share in the surplus-product and the surplus-value created without his assistance. It is this which is the characteristic peculiarity of his position, and not the fact that the value of the products of the soil and thus of the land increases in proportion as the market for them expands, the demand grows and with it the world of commodities which are not agricultural products, the mass of producers and

products outside of agriculture. But as this is done without the assistance of the landowner, it appears as something specifically his own, that measures of value, measures of surplus-value, and the conversion of a portion of surplus-value into ground-rent should depend upon the process of social production, on the development of the production of the commodities in general. For this reason a man like Dove wants to develop rent out of this element. He says that rent does not depend upon the mass of agricultural products, but upon their value; but this depends upon the mass and productivity of the non-agricultural population. But it is also true of all other products that they cannot develop the character of commodities, unless the mass, the variety and the succession of other commodities form equivalents for them. We have shown this previously in the discussion of the general nature of value. On the one hand the exchangeability of a certain product depends altogether on the multiplicity of commodities existing outside of it. On the other hand this circumstance determines in particular to what extent this product shall be put out as a commodity.
VI.XXXVII.46

No producer, whether an industrial or farmer, considered by himself alone, produces value or commodities. His product becomes a commodity only in definite social interrelations. It becomes a commodity, in the first place, to the extent that it represents social labor, so that the individual producer's labor counts as a part of the

general social labor. And in the second place this social character of his labor appears impressed upon his product through its pecuniary character and through its general exchangeability determined by its price.
VI.XXXVII.47

Instead of explaining rent, such vagaries confine themselves to explaining merely surplus-value in general, or, still more absurdly, surplus-products in general, and on the other hand they make the mistake of ascribing a character, which belongs to all products in their capacity as commodities, to agricultural products exclusively. This is still more vulgarised by those who pass from a general analysis of value over to the realisation of a certain commodity's value. Every commodity can realise its value only in the process of circulation, and whether it realises its value, and to what extent it does so, depends on the prevailing market conditions.
VI.XXXVII.48

It is not a peculiarity of ground-rent, then, that the products of agriculture develop into values and as values, that they face other commodities as commodities, and that products not agricultural face them as commodities, or that they develop as specific expressions of social labor. The peculiarity of ground-rent is rather that in proportion as the conditions develop, in which agricultural products develop as commodities (values), and in which they can realise their values, so

does also property in land develop the power to appropriate an increasing portion of these values, which were created without its assistance, and so does an increasing portion of the surplus-value assume the form of ground-rent.

Notes for this chapter

119.
Nothing could be more comical than Hegel's development of private property in land. According to him, man as an individual must give reality to his will as the soul of external nature, and to this end he must take possession of nature and make her his private property. If this were the destiny of "the individual," of man as an individual, it would follow that every human being must be a land-owner, in order to materialise as an individual. Free private property in land, a very recent product, is not a definite social relation, according to Hegel, but a relation of man as an individual to "nature, an absolute right of man to appropriate all things." (Hegel, Philosophy of Law, Berlin, 1840, p. 79.) So much at least, is evident, that the individual cannot maintain himself as a landowner by his mere "will" against the will of another individual, who likewise wants to materialise himself in the same piece of land. It requires a good many other things besides the good will. Furthermore, it is absolutely beyond any one's ken to decide, where "the individual" should draw the line for the realisation of his will, whether the presence of his will should materialise in one

whole country, or whether it should require a whole bunch of countries by whose appropriation I might "manifest the supremacy of my will over the thing." Here Hegel breaks down. "The appropriation is of a very individual kind; I do not take possession of more than I touch with my body, but the second point is at the same time that external things have a greater extension than I can grasp. While I thus have possession of a thing, something else is likewise in touch with it. I exercise my appropriation by my hand, but its scope may be extended." (P. 90.) But this other thing is again in touch with still another, and so the boundary disappears, within which I might pour my will as the soul of the soil. "If I own anything, my reason at once passes on to the idea that not only this property, but also the thing it touches is mine. Here positive right must fix its boundaries, for nothing more can be deduced from the conception." (P. 91.) This is an extraordinarily naive confession of the "conception," and it proves that this conception, which makes at the outset the mistake of regarding a very definite legal conception of landed property belonging to bourgeois society as an absolute one, does not understand anything of the actual articulations of this property. This implies at the same time the confession, that the "positive" law may, and must, alter its decisions in proportion as the requirements of social, i.e. economic development, change.

120.

Very conservative agricultural chemists, for instance Johnston, admit that a really rational agriculture meets everywhere insurmountable

barriers through the existence of private property. So do writers, who are confessedly advocates of the monopoly of private property on the globe, for instance Charles Comte in his work of two volumes, which has for its special aim the defense of private property. "A nation," says he, "cannot attain to the degree of prosperity and power compatible with its nature, unless every portion of the soil nourishing it is assigned to that purpose which agrees best with the general interest. In order to give to its wealth a strong development, one sole and highly enlightened will should, if possible, take it upon himself to assign to each piece of his domain its task and make every piece contribute to the prosperity of all others. But the existence of such a will...would be incompatible with the division of the land into private plots...and with the ability of each owner to dispose of his property in an almost absolute manner, according to constitutional guarantees."‘ Johnston, Comte, and others, have in mind only the necessity of tilling the land of a certain country as a whole, when they speak of an antagonism of private property to a rational system of agronomics. But the dependence of the cultivation of particular products of the soil upon the fluctuations of market prices, and the continual changes of this cultivation with these fluctuations of prices, the whole spirit of capitalist production, which is directed toward the immediate gain of money, contradicts agriculture, which has to minister to the entire range of permanent necessities of life required by a network of human generations. A striking illustration of this is furnished by the forests, which are occasionally managed in a way befitting the

interests of society as a whole, when they are not private property, but subject to the control of the state.

121.

The Poverty of Philosophy, p. 148. There I have made a distinction between land-capital and material land. "By merely applying additional capital to land already transformed into means of production land-capital may be augmented without adding anything to the material land, that is to say, to the extent of the land....As capital, land is not more eternal than any other capital....Land-capital is fixed capital, but fixed capital is used up as well as circulating capital."

122.

I say "may," because under certain circumstances this interest is regulated by the law of ground-rent and may disappear, for instance, in the case of competition between lands of great natural fertility.

123.

See James Anderson and Carey.

124.

See the anti-corn law prize essays. However, the corn laws always kept prices at an artificially higher level. For the better situated tenants this was favorable. They profited by the stationary condition, in which the protective duties kept the great mass of tenants, who relied with or without reason on the exceptional average price.

125.

John C. Morton, The Forces Used in Agriculture. Lecture in the London Society of Arts, 1860, based upon authentic documents, collected by about 100 tenants from 12 Scotch and 35 English counties.

Part VI,

Volume III Chapter XXXVIII DIFFERENTIAL RENT. GENERAL REMARKS.

VI.XXXVIII.1

IN the analysis of ground-rent we shall start from the assumption, that products paying such a rent, that is, products a portion of whose surplus-value and general price resolves itself into ground-rent, are sold at their prices of production, like all other commodities. It suffices for our purposes to confine ourselves to products of agriculture and mining. In other words, their selling prices are made up of the elements of their cost (the value of the consumed constant and variable capital) plus a profit, which is determined by the average rate of profit and calculated on the total capital advanced, whether consumed or not consumed. We assume, then, that the average selling prices of these products are equal to their prices of production. The question is now, how can a ground-rent develop under these conditions, how can a portion of the profit become converted into

ground-rent, so that a portion of the prices of the commodities falls into the hands of the landlord.

VI.XXXVIII.2

In order to show the general character of this form of ground-rent, we assume that most of the factories of a certain country are driven by steam engines, while a certain smaller number of them are driven by natural waterfalls. Let us further assume that the price of production in those industries amounts to 115 for a quantity of commodities which have consumed a capital of 100. The 15% of profit are calculated, not merely on the consumed capital of 100, but on the total capital invested in the production of this value in the commodities. We have previously shown that this price of production is not determined by the individual cost-price of every single producing industrial, but by the cost-price required on an average for the commodity under the average conditions of capital in the entire sphere of production. It is, in fact, the market price of production, as distinguished from its oscillations. For it is in the form of the market price, and in a wider sense of the regulating market price, or market price of production, that the nature of value asserts itself in commodities. It becomes evident, in this way, that it is not determined by the labor time necessary in the case of any individual producer for the production of a certain quantity of commodities, or of some individual commodity, but by the socially necessary labor time. This is that quantity of labor time, which is necessary for the

production of the socially required total quantity of commodities of any kind on the market under the existing average conditions of social production.
VI.XXXVIII.3

As definite figures are immaterial in this case, we shall furthermore assume that the cost price in the factories driven by water power is only 90 instead of 100. Since the regulating market price of production of this quantity of commodities is 115, with a profit of 15%, the factories driven by water power will also sell their commodities at 115, the average price regulating the market price. Their profit would then be 25 instead of 15; the regulating market price of production would allow them a surplus-profit of 10%, not because they sell their commodities above the price of production, but because they sell them at the price of production, because their commodities are produced, or their capital expanded, under exceptionally favorable conditions, under conditions, which are above the average prevailing in this sphere.
VI.XXXVIII.4

Two things become evident at once.
VI.XXXVIII.5

1) The surplus-profit of the producers, who use the natural waterfall as motive power, is in the same class with all surplus-profit (and we

have already analysed this category when discussing the prices of production), which is not the result of mere transactions in the sphere of circulation, of mere fluctuations of market prices. This surplus-profit, then, is likewise equal to the difference between the individual price of production of these favored producers and the general social price of production regulating the market in this entire sphere. This difference is equal to the excess of the general price of production of the commodities over their individual price of production. The two regulating limits of this excess are on the one hand the individual cost price, and thus the individual price of production, on the other hand the general price of production. The value of the commodities produced with water power is smaller, because a smaller quantity of labor is required for their production, namely less labor materialised in the constant capital. The labor here employed is more productive, its individual power of production is greater than that employed in the majority of the factories of the same kind. Its greater productive power is shown in the fact that it requires a smaller quantity of constant capital, a smaller quantity of materialised labor, than the others. It also requires less living labor, because the water wheel need not be heated. This greater individual power of production of the employed labor reduces the value, and at the same time the cost price and price of production of the commodity. For the individual industrial capitalist this expresses itself in a lower cost price of his commodities. He has to pay for less materialised labor, and less wages for less labor-power employed. Since the cost price of his

commodities is smaller, his individual price of production is also smaller. His cost price is 90 instead of 100. His individual price of production would therefore be only 103½ instead of 115 (100: 115 = 90: 103½). The difference between his individual price of production and the general one is limited by the difference between his individual cost price and the general one. This is one of the magnitudes which form the limits of his surplus-product. The other is the magnitude of the general price of production, into which the average rate of profit enters as a regulating factor. If coal should become cheaper, the difference between his individual cost-price and the general cost-price would decrease, and with it his surplus-profit. If he should be compelled to sell his commodities at their individual value, or at the price of production determined by its individual value, then the difference would disappear. It is on the one side a result of the fact that the commodities are sold at their general market-price, the price brought about by the equalisation of individual prices through competition, on the other side a result of the fact that the greater individual productivity of the laborers employed by him does not benefit the laborers, but their employer, as does all productivity of labor. This productivity represents itself as a faculty of capital.
VI.XXXVIII.6

Since the level of the general price of production is one of the limits of the surplus-product, the level of the average rate of profit being one of its factors, it can have no other source but the difference

between the general and the individual price of production, and consequently the difference between the general and the individual rate of profit. An excess of this difference would imply the sale of products above the price of production regulated by the market, not at this price.
VI.XXXVIII.7

2) So far as the surplus profit of the manufacturer using natural water power instead of steam for motive power does not differ in any way from any other surplus profit. All normal surplus profit, that is all surplus profit not due through accidental sales or fluctuations of the market price, is determined by the difference between the individual price of production of the commodities of these particular capitals and the general price of production, which regulates in a general way the market prices of the commodities produced by the capitals of this sphere of production, or the market prices of the commodities of the total capital invested in this sphere of production.
VI.XXXVIII.8

But now we come to the difference.
VI.XXXVIII.9

To what circumstance does the industrial capitalist in the present case owe his surplus-profit, the surplus resulting for him personally from the price of production regulated by the average rate of profit?

VI.XXXVIII.10

He owes it in the last resort to a natural power, the motive power of water, which is found ready at hand in nature and which is not itself a product of labor like coal, which transforms water into steam. The water has no value, it need not be paid by an equivalent, it costs nothing. It is a natural agency of production, which is not produced by labor.

VI.XXXVIII.11

But this is not all. The manufacturer who works with a steam engine also employs natural powers, which cost him nothing and yet make his labor more productive and, to the extent that they cheapen the manufacture of the means of subsistence required for the laborers, increase the surplus-value and with it the profit. These natural powers are quite as much monopolised by capital as the natural powers of social labor arising from co-operation, division, etc. The manufacturer pays for the coal, but not for the faculty of the water to alter its aggregate state, of passing over into steam, not for the elasticity of the steam, etc. The monopolisation of natural powers, that is of the increased productivity of labor due to them, is common to all capital working with steam engines. It may increase that portion of the product of labor which represents surplus-value as against that portion which is converted into wages. To the extent that it does this, it raises the general rate of profit, but it does not make any surplus-

profit, for this consists of the excess of the individual profit over the average profit. The fact that the application of a natural power, of a waterfall, creates a surplus-profit in this case, cannot therefore be due solely to the circumstance that the increased productivity of labor is here due to a natural force. There must be still other modifying circumstances.
VI.XXXVIII.12

Look at the reverse side. The mere application of natural powers to industry may influence the level of the general rate of profit, because it affects the quantity of labor necessary to produce the means of subsistence. But in itself it does not create any deviations from the general rate of profit, and this is the point in which we are interested here. Furthermore, the surplus-profit, which some individual capital may ordinarily realise in its particular sphere of production‘for the deviations of the rates of profits in the various spheres of production are continually balanced by competition into an average rate‘are due, aside from accidental deviations, to a reduction of the cost-price, of the cost of production. This reduction arises either from the fact that a capital is used in greater than ordinary quantities, so that the dead expenses of the production are reduced, while the general causes increasing the productivity of labor, such as co-operation, division, etc., can exert themselves with a higher degree of intensity, their field of expression being larger. Or it may arise from the fact that, aside from the greater volume of the invested capital, better methods of labor,

new inventions, improved machinery, chemical secrets in manufacture, etc., in short new and improved means of production and methods are used, which are above the average. The reduction of the cost price and the surplus profit arising from it arise here from the manner, in which the self-expanding capital is invested. They arise either from the circumstance that it is concentrated in one hand in extraordinarily large masses (a circumstance which is neutralised when capitals of the same size become the average), or from the circumstance that a capital of a certain size expands itself under exceptionally favorable circumstances (a circumstance which is neutralised as soon as the exceptional method of production becomes general or is superseded by a still more developed one).
VI.XXXVIII.13

The cause of the surplus profit, then, arises here from the capital itself (which includes the labor set in motion by it); it is either due to the greater size of the capital employed, or to its more improved application; and there is no particular reason why all the capital in the same sphere of production should not be invested in the same way. In fact, the competition between the capitals tends to neutralise their differences more and more. The determination of value by the socially necessary labor time asserts itself by the cheapening of commodities and the necessity of making commodities under the same favorable conditions. But it is different with the surplus profit of the industrial capitalist who uses water power. The increased productive power of

his labor is not due either to his capital or his labor, nor to the mere application of some natural force separate from capital and labor, but incorporated in the capital. It arises from the greater natural power of production of labor in conjunction with some other natural power, which natural power is not at the command of all capitals in this sphere, whereas such a thing as the elasticity of steam is. The application of this other natural power does not follow as a selfunderstood matter, whenever capital is invested in this sphere. It is a monopolised natural power, which, like a water fall, is only at the command of those who can avail themselves of particular pieces of the globe and its opportunities. It is not within the power of capital to call to life this natural premise for a greater productivity of labor, whereas any capital may transform water into steam. Water power is found only locally in nature, and wherever it does not exist, it cannot be created by any investment of capital. It is not dependent upon products which labor can secure, such as machines, coal, etc. It is dependent upon definite natural conditions of definite portions of the globe. That section of industrial capitalists who own waterfalls excludes the other section who do not own any from the application of this power, because the land, and particularly land supplied with water power, is limited. Of course this does not prevent the quantity of water power available for industrial purposes from being increased, even if the number of natural waterfalls in a certain country is limited. Water power may be artificially diverted, in order to exploit its motive force fully. Under certain conditions a water wheel may be inproved

so as to use the highest possible amount of water power; in places where the ordinary wheel is not suitable for supplying water, turbines may be used, etc. The possession of this natural power forms a monopoly in the hand of its owner, it is a premise for the increase of the productivity of the invested capital, which cannot be created by the process of production of the capital itself.*126 This natural power, which can be monopolised in this way, is always attached to the soil. Such a natural power does not belong to the general conditions of that particular sphere of production, and not to those conditions, which may be made general.
VI.XXXVIII.14

Now let us assume that the waterfalls with the land on which they are found are held in the hands of persons, who are considered the owners of these portions of the globe, who are land owners. These owners may exclude others and prevent them from investing capital in the waterfalls or using waterfalls by means of capital. They can permit such a use or forbid it. The capital cannot create a waterfall out of itself. Therefore the surplus profit, which arises from this employment of waterfall, is not due to capital, but to the harnessing of a natural power, which can be monopolised and has been monopolised, by capital. Under these circumstances the surplus-profit is transformed into ground-rent, that is, it falls into the hands of the owner of the waterfall. If the industrial capitalist pays to the owner of the waterfall 10 pounds sterling annually, then his profit is 15 pounds sterling, that

is 15% on the 100 which then make up his cost of production; and he is just as well off, or possibly better, as all other capitalists of his sphere of production, who work with steam. It would not matter, if this capitalist should be the owner of the waterfall. He would in that case pocket the surplus profit of 10 pounds in his capacity as a landowner, not in his capacity as an industrial capitalist, just because this surplus is not due to his capital as such, but to a limited natural power separate from his capital, over which he has command, because he has a monopoly of it. And so it is converted into ground-rent.
VI.XXXVIII.15

1) It is evident that this is always a differential rent, for it does not enter as a determining factor into the average price of production of commodities, but rather is based on it. It always arises from the difference between the individual price of production of the individual capital having command over monopoly of natural power and the general price of production of the total capital invested in that particular sphere of production.
VI.XXXVIII.16

2) This ground-rent does not arise from the absolute increase of the productivity of the employed capital, or of the labor appropriated by it, since this can only reduce the value of commodities; it is due to the greater relative fertility of definite individual capitals invested in a certain sphere of production, as compared with investments of capital,

which are excluded from these exceptional and natural conditions favoring the productivity. For instance, if the use of steam should offer overwhelming advantages not attached to the use of water power, or tending to neutralise the benefits to be derived from water power, then, water power would not be used and could not produce any surplus profit, or ground-rent, even though coal has a value and water power has not.
VI.XXXVIII.17

3) The natural power is not the source of the surplus profit, but only its natural basis, because this natural basis permits an increase in the productive power of labor. In the same way the use-value is the general bearer of the exchange-value, but not its cause. If the same use-value could be created without labor, it would have no exchange-value, yet it would have the same useful effect as ever. On the other hand, nothing can have an exchange-value unless it has a use-value, unless it has this useful bearer of labor. Were it not for the fact that the different values are neutralised into prices of production, and the different individual prices of production into one average price of production regulating the market, the mere increase in the productivity of labor by the use of a waterfall would merely lower the price of the commodities produced with the waterfall, without adding anything to the share of profit contained in those commodities. On the other hand, this increased productivity of labor would not be converted into

surplus-value, were it not for the fact that capital appropriates the natural and social productivity of labor as though it were its own.
VI.XXXVIII.18

4) The private ownership of the waterfall has nothing to do with the creation of that portion of the surplus-value (profit), and of the price of a commodity in general, which is produced by the help of the waterfall. This surplus profit would also exist, if private property did not prevail, for instance, if the land supplied with the waterfall were appropriated by the industrial capitalist as masterless booty. Hence private property in land does not create that portion of value, which is transformed into surplus profit, but it merely enables the landowner, who has possession of the waterfall, to coax this surplus profit out of the pocket of the industrial capitalist into his own. It is the cause, not of the creation of this surplus profit, but of its transformation into ground-rent, of the appropriation of this portion of the profit, or of the price of commodities, by the owner of the land or of the waterfall.
VI.XXXVIII.19

5) It is evident that the price of the waterfall, that is the price which the owner of it would receive if he were to sell it to some other man, perhaps to the industrial capitalist, would not enter directly into the general price of production of the commodities, although it would enter into the individual cost-price of the industrial capitalist. For the

rent arises here from the price of production of the commodities produced by steam machinery, and this price is regulated independently of the waterfall. Furthermore, this price of the waterfall is an irrational expression, behind which a real economic relation is concerned. The waterfall, like the earth in general, and like any natural force, has no value, because it does not represent any materialised labor, and therefore it really has no price, which is normally but the expression of value in money. Where there is no value, it is obvious that it cannot be expressed in money. This price is merely capitalised rent. The ownership of land enables the landowner to catch the difference between the individual profit and the average profit. The profit thus acquired, which is renewed every year, may be capitalised, and then it appears as the price of a natural power itself. If the surplus profit realised by the use of the waterfall amounts to 10 pounds sterling per year, and the average interest is 5%, then these 10 pounds sterling annually represent the interest on a capital of 200 pounds sterling; and this capitalisation of the annual 10 pounds sterling, which the waterfall enables its owner to catch, appears then as the capital-value of the waterfall itself. That it is not the waterfall itself, which has a value, but that its price is a mere reflex of the appropriated surplus profit, which the use of the waterfall yields to the industrial capitalist, capitalistically calculated, becomes at once evident in the fact that the price of 200 pounds sterling represents merely the product of a surplus profit of 10 pounds sterling for 20 years, whereas the same waterfall will enable its owner to catch these 10

pounds sterling every year for 30 years, or 100 years, or an indefinite number of years, so long as circumstances remain the same. On the other hand, if some new method of production, which is not suitable for water power, should reduce the cost price of the commodities produced by steam machinery from 100 to 90 pounds sterling, the surplus profit, and with it the rent, and with it the price of the waterfall, would disappear.
VI.XXXVIII.20

Now that we have explained our general conception of differential rent, we will pass on to its consideration in agriculture, strictly so-called. What applies to it will also apply on the whole to mines.

Notes for this chapter

126.
As to the extra profit, see the "Inquiry" (against Malthus).

Part VI,

Volume III Chapter XXXIX THE FIRST FORM OF DIFFERENTIAL RENT.

(Differential Rent I.)

VI.XXXIX.1

RICARDO is quite right when he writes the following sentences:

"Rent is always the difference between the produce obtained by the employment of two equal quantities of capital and labor" (Principles, p. 59). [He means differential rent, for he assumes that no other rent but differential rent exists.] He should have added "On the same quantities of land," so far as ground-rent and not surplus profit in general is concerned.

VI.XXXIX.2

In other words, surplus profit, if normal and not due to accidental transactions in the process of circulation, is always produced as a difference between the products of two equal quantities of capital and labor. This surplus profit is transformed into ground rent, when two equal quantities of capital and labor are employed on equal quantities of land with unequal results. However, it is by no means absolutely necessary that this surplus profit should arise from unequal results of equal quantities of invested capital. The various investments may also employ unequal quantities of capital. Indeed, this is generally the case. But equal aliquot parts, for instance 100 pounds sterling of each, give unequal results; that is, their rates of profit are different. This is the general prerequisite for the existence of surplus profit in

any sphere, where capital is invested. The second prerequisite is the transformation of this surplus profit into ground-rent (and of rent in general as distinguished from profit); it should always be analysed, when, how, under what conditions this transformation takes place.
VI.XXXIX.3

Ricardo is also right in the following sentence, provided it is limited to differential rent: "Whatever diminishes the inequality in the produce obtained on the same or on new land, tends to lower rent; and whatever increases that inequality, necessarily produces an opposite effect and tends to raise it." (P. 74.)
VI.XXXIX.4

However, among these causes are not merely the general ones (fertility and location), but also 1) the distribution of taxes, according to whether it works uniformly or not; it always has the latter effect, for instance in England, when it is not centralised and when the tax is levied on the land, not on the rent; 2) the inequalities arising from the different development of agriculture in different parts of the country, since this line of industry, on account of its traditional character, is more difficult to level than manufacture; 3) the inequality in the distribution of capital among the capitalist tenants. Since the capture of agriculture by the capitalist mode of production, the transformation of independently producing farmers into wage workers,

is in fact the last conquest of this mode of production, these inequalities are greater here than in any other line of industry.
VI.XXXIX.5

After these preliminary remarks I will give a brief summary of the peculiarities of my own analysis as distinguished from that of Ricardo, etc.

VI.XXXIX.6

We consider first the unequal results of equal quantities of capital, applied to different lands of equal area; or on lands with unequal areas, but calculated on the same aliquot parts of it.
VI.XXXIX.7

The two general causes of these unequal results independent of capital, are 1) Fertility. (With reference to this first point the analysis should state, what is included in the natural fertility of lands, and what elements enter into it.) 2) The location of the lands. This is a deciding factor in colonies, and in general determines the succession in which lands shall be taken under cultivation. Furthermore it is evident that these two different causes of differential rent, fertility and location, may work in opposite directions. A certain soil may be very favorably located and yet be very poor in fertility, and vice versa. This circumstance is important, for it explains how it is that the work of

opening the soil of a certain country to cultivation may equally well proceed from the worse to the better soil, instead of vice versa. Finally it is clear that the progress of social production has on the one hand the general effect of leveling the differences arising from location as a cause of ground-rent, by creating local markets and improving locations by means of facilities for communication and transportation; and that, on the other hand, it increases the differences of the individual locations in a certain district by separating agriculture from manufacture and forming great centers of production on the one hand while relatively isolating the agricultural districts on the other hand.
VI.XXXIX.8

For the present, however, we leave this point, location, out of consideration and confine ourselves to natural fertility. Aside from climatic factors, etc., the difference in natural fertility is one of the chemical compositions of the top soil, that is of its different contents in plant nourishment. However, assuming the chemical composition and natural fertility in this respect to be the same for two areas, the actual fertility will be different according to whether these elements of plant nourishment have a form, in which they may be more or less easily assimilated and immediately utilised for nourishing plants. Hence it will depend partly upon the chemical, partly upon the mechanical development of agriculture, to what extent the same natural fertility may be made available in fields of the same natural fertility. Fertility,

although an objective quality of the soil, always implies economic relations, a relation to the existing chemical and mechanical development in agriculture, of course it changes with such a development. By dint of chemical applications (such as the use of certain liquid manures to stiff clay loam, or burning of heavy clay soils) or of mechanical appliances (such as special plows for heavy soils) the obstacles may be removed, which made a soil of the same fertility as some other actually less fertile (drainage also belongs under this head). Or even the succession of soils in cultivation may be changed thereby, as was the case, for instance, with light sandy soil and heavy clay soil in a certain period of development of English agriculture. This shows once more that historically, in the succession of soils under cultivation, one may pass just as well from very fertile soils to less fertile ones as vice versa. The same may come to pass by any artificially created improvement in the composition of the soil, or by a mere change in the methods of agriculture. Finally the same result may be brought about by a change in the succession of the predominant kinds of soil, owing to different conditions of the subsoil, as soon as it is likewise taken into cultivation and turned over into top layers. This is caused either by the employment of new methods of agriculture (such as planting of stock feed), or any mechanical appliances, which either turn the subsoil into top layers, or mix it with the top soil, or cultivate the subsoil without throwing it up.
VI.XXXIX.9

All these influences upon the differential fertility of different lands amount to the practical result that for the economic fertility the state of the productivity of labor, in this case the faculty of agriculture of making the natural fertility of the soil immediately available, a faculty which varies in different periods of development, is as much an element in the so-called natural fertility of the soil as its chemical composition and its other natural qualities.
VI.XXXIX.10

We assume, then, the existence of a certain stage of development of agriculture. We assume furthermore, that the predominant succession of soils is calculated with reference to this stage of development, a thing which is, of course, always the case with simultaneous investments of capital on the different soils. Under such circumstances differential rent may form either in an ascending or a descending succession, for although the succession is an established fact for the totality of the actually cultivated lands, a movement of succession leading to this formation always preceded it.
VI.XXXIX.11

Let us assume the existence of four kinds of soil, A, B, C, D. Let us furthermore assume that the price of one-quarter of wheat is three pounds sterling, or 60 shillings. Since rent is here merely a differential rent, this price of 60 shillings per quarter for the worst soil is equal

to the cost of production, that is equal to the capital plus the average profit.
VI.XXXIX.12

Let A be this worst soil and yield for each 50 shillings of expenditure one-quarter of wheat worth 60 shillings, so that the profit is 10 shillings, or 20%.
VI.XXXIX.13

Let B yield for the same expenditure 2 quarters of wheat, or 120 shillings. This would be 70 shillings of profit, or a surplus profit of 60 shillings.
VI.XXXIX.14

Let C yield for the same expenditure 3 quarters, or 180 shillings; total profit 130 shillings, surplus profit 120 shillings.
VI.XXXIX.15

Let D yield 4 quarters, 240 shillings, 190 shillings of profit, 180 shillings of surplus profit.
VI.XXXIX.16

Then we shall have the following succession:

Table. Click to enlarge in new window.

VI.XXXIX.17

The respective rents are: D = 190 sh.‘10 sh., or the difference between D and A; C = 130‘10 sh., or the difference between C and A; B = 70‘10 sh., or the difference between B and A; and the total rent for B, C, D equals 6 quarters, or 360 shillings, equal to the sum of the differences between D and A, C and A, B and A.
VI.XXXIX.18

This succession representing a certain product in a certain condition may, abstractly considered, descend from D to A, from very fertile to less and less fertile soil, or rise from A to D, from relatively poor to more and more fertile soil, or may fluctuate in a now rising, now descending curve, for instance from D to C, from C to A, from A to B (and we have already mentioned the reasons why this might take place in reality).
VI.XXXIX.19

The process leading to the descending succession took place in the following manner: The price of one-quarter of wheat rose gradually from, say, 15 shillings to 60 shillings. As soon as the 4 quarters produced by D (assume them to have been so many million quarters) did not suffice any more, the price of wheat rose to a point where the missing supply could be raised by C. That is to say, the price of wheat must have risen to 20 shillings per quarter. When it had risen

to 30 shillings per quarter, B could be taken under cultivation, and when it reached 60 shillings per quarter, A could be taken in, and the capital invested in it did not have to be content with a lower rate of profit than 20%. In this way a rent was formed for D, first of 5 shillings per quarter, or 20 shillings for the 4 quarters produced by it; then of 15 shillings per quarter, or 60 shillings, then of 45 shillings per quarter, or a total of 180 shillings for 4 quarters.
VI.XXXIX.20

If the rate of profit of D originally was likewise 20%, then its total profit on 4 quarters of wheat was also but 10 shillings, but this stood for more grain when the price was 15 shillings than it does when the price is 60 shillings. But since the grain enters into the reproduction of labor-power, and a portion of each quarter has to make good some wages and another some constant capital, the surplus-value under this condition was higher, and to that extent, other things being the same, the rate of profit. (The matter of the rate of profit will have to be analysed separately and in detail.)
VI.XXXIX.21

On the other hand, if the succession went the opposite way, that is, if the movement started from A, then the price of wheat at first rose above 60 shillings, when new land had to be taken under cultivation. But when the necessary supply was raised by B, a supply of 2 quarters, the price fell once more to 60 shillings. B raised wheat at a

cost of 30 shillings per quarter, but sold it at 60 shillings, because its supply sufficed just to cover the demand. In this way a rent was formed, first of 60 shillings for B, and in the same way for C and D; always assuming that the market price remained at 60 shillings, although C and D relatively raised wheat having a value of 20 and 15 shillings respectively, because the supply of the one-quarter raised by A was as much needed as ever to satisfy the total demand. In this case the rising of the demand above the supply first raised by A, then by A and B, would not have made it possible to cultivate successively B, C and D, but would merely have caused a general extension of the sphere of cultivation, by which the more fertile lands came under its control later.
VI.XXXIX.22

In the first succession, an increase in the price would raise the rent and lower the rate of profit. The lowering of the rate of profit might be entirely or partially checked by opposing circumstances. This point will have to be treated later. It should not be forgotten, that the general rate of profit is not determined uniformly in all spheres of production by the surplus-value. It is not the agricultural profit, which determines the industrial profit, but vice versa. But of this more anon.
VI.XXXIX.23

In the second succession the rate of profit on the invested capital would remain the same. The mass of profit would present itself in

less grain; but the relative price of grain, compared with that of other commodities, would have risen. Only, whatever increase there might be in the profit, would separate itself from the actual profit in the form of rent, instead of flowing into the pockets of the capitalist tenant and appearing as a growing profit. The price of grain, however, would remain unchanged under the conditions assumed here.
VI.XXXIX.24

The development and growth of differential rent would remain the same, both with unaltered and with increasing prices, and with a continued progress from worse to better land as well as with a continued regression from better to worse land.
VI.XXXIX.25

So far we have assumed 1) that the price rises in the one succession and remains stationary in the other; 2) that there is a continual progression from better to worse soil, or from worse to better soil.
VI.XXXIX.26

But now let us assume that the demand for grain rises from its original figure of 10 to 17 quarters; furthermore, that the worst soil A is displaced by another soil A', which raises 1 1/3 quarters at a price of production of 60 shillings (50 sh. cost plus 10 sh. for 20% profit), so that its price of production for one-quarter is 45 shillings; or, perhaps, the old soil A may have become improved through a

continued rational cultivation, or may be cultivated more productively at the same cost, for instance, by the introduction of clover, etc., so that its product with the same investment of capital rises to 1 1/3 quarters. Let us also assume that the classes B, C and D of soil supply the same product as ever, but that new classes of soil have been introduced, for instance, A' of a fertility between A and B, furthermore B' and B'' of a fertility between B and C. In that case we should witness the following phenomena:
VI.XXXIX.27

1) The price of production of one-quarter of wheat, or its regulating market price, would have fallen from 60 shillings to 45 shillings, or by 25%.
VI.XXXIX.28

2) The cultivation would have proceeded simultaneously from more fertile to less fertile soil, and from less fertile to more fertile soil. The soil A' is more fertile than A, but less fertile than the hitherto cultivated soils B, C and D. And B' and B'' are more fertile than A, A' and B, but less fertile than C and D. The succession would thus have proceeded in crisscross fashion. Cultivation would not have proceeded to soil absolutely less fertile than A, etc., but it would have proceeded to relatively less fertile than the soils C and D; on the other hand, cultivation would not have taken up soil absolutely more fertile, but at

least relatively more fertile compared to the hitherto least fertile soils A or A and B.
VI.XXXIX.29

3) The rent on B would have fallen; likewise the rent on C and D; but the total rental would have risen from 6 quarters to 7 2/3; the mass of the cultivated and rent paying lands would have increased, and the mass of the product would have risen from 10 quarters to 17. The profit, if remaining the same for A, expressed in grain, would have risen; but the rate of profit itself might have risen, because the relative surplus-value did. In this case the wages, and with them the investment of variable capital, and with it the total investment, would have been reduced on account of the cheapening of the means of subsistence. The total rental would have fallen from 360 shillings to 345 shillings.
VI.XXXIX.30

Let us draw up the new succession.

Table. Click to enlarge in new window.
VI.XXXIX.31

Finally, if only the classes of soil A, B, C and D were cultivated, but their productivity raised in such a way that A would produce 2 quarters instead of 1, B, 4 quarters instead of 2, C, 7 quarters instead

of 3, and D, 10 quarters instead of 4, so that the same causes would have acted differently upon the various classes of soil, the total production would have increased from 10 quarters to 23. Assuming that the demand would absorb these 23 quarters by an increase of the population and the falling of prices, we should get the following table:

Table. Click to enlarge in new window.
VI.XXXIX.32

The numbers in this and in other tables are arbitrarily chosen, but the assumptions are quite rational.
VI.XXXIX.33

The first and principal assumption is that the improvement in agriculture acts differently upon different soils, and in this case more so upon the best classes of soil, C and D, than upon the A and B classes. Experience has shown that this is indeed the case, although the opposite may also take place. If the improvement should affect the lesser soils more than the better ones, the rent on these last ones would have fallen instead of rising.
VI.XXXIX.34

But in our table we have assumed that the absolute growth of the fertility of all classes of soil is simultaneously accompanied by an

increase of the higher relative fertility of the better classes of soil, C and D, which implies an increasing difference between the various products with the same investment of capital, and thus an increase of the differential rent.
VI.XXXIX.35

The second assumption is that the total demand must keep step with the increase of the total product. In the first place, one need not imagine such an improvement to come abruptly, but gradually, until the succession in table III is reached. In the second place, it is a mistake to say that the consumption of necessities of life does not grow with their cheapening. The abolition of the corn laws in England proved the reverse (see Newman), and the contrary view is derived merely from the fact that great and sudden differences in the harvests, caused by the weather, bring about at one time an extraordinary fall, at another an extraordinary rise in the prices of cereals. While in such a case the sudden and short cheapness does not get time to exert its full effect upon the extension of consumption, the opposite takes place when the cheapening process arises out of the lowering of the regulating price of production itself and has permanency. In the third place, a portion of the grain may be consumed in the shape of whiskey or beer. And the rising consumption of these articles is by no means confined within narrow limits. In the fourth place, this matter depends partly upon the increase of the population, and for the other part the country may be

a grain exporting one, as England was far beyond the middle of the 18th century, so that the demand is not regulated by the boundaries of a mere national consumption. Finally the increase and cheapening of the wheat production may have the result of making wheat instead of rye or oats the principal article of consumption for the masses, so that the demand for it may grow for this reason alone, just as the opposite may take place when the product decreases and prices rise.‘ Under these assumptions, and with the figures previously chosen, succession No. III would show a fall in the price per quarter from 60 shillings to 30, that is 50%, that production compared to succession No. I would increase from 10 quarters to 23, in other words, by 130%; that the rent would remain stationary upon the soil B, be doubled upon C, and more than doubled upon D, and that the total rental would increase from 18 pounds sterling to 22, a growth of 22 1/ 9%.
VI.XXXIX.36

A comparison of these three tables (taking table I twice, one rising from A to D, and one descending from D to A), which may be considered either as existing gradations under some definite stage of society, for instance, as existing side by side in three different countries, or as succeeding one another in different periods of development in the same country, would show:
VI.XXXIX.37

1) That the succession, when complete, whatever may have been the course of its formative process, always has the appearance of being in a descending line; for in studying the rent, the point of departure will always be the soil producing the maximum of rent, and the closing point will be the soil yielding no rent.
VI.XXXIX.38

2) That the price of production of the worst soil, which yields no rent, is always the regulating market price, although this market price in table I, if its succession was formed in an ascending line, could not remain stationary, unless better and better soil were cultivated. In that case the price of the grain produced on the best soil is a regulating one to the extent that it depends upon the quantity produced on such soil in what measure the soil of class A shall remain the regulator. For instance, if B, C, D should produce more that the demand calls for, then A would cease to be the regulator. This is what Storch has in mind, when he adopts the best class of soil as the regulating one. In this manner the American price of cereals regulates the English price.
VI.XXXIX.39

3) Differential rent arises from the differences in the natural fertility of the soil which depends upon the prevailing degree of development of cultivation (leaving aside for the present the question of location), in other words, from the limited area of the best lands, and from the

circumstance that equal capitals must be invested in unequal soils, which yield unequal products with the same capital.
VI.XXXIX.40

4) The existence of differential rent and of a graduated succession of differential rents may be due quite as much to a descending succession, which leads from the better to the worse soils, as to an ascending one, which takes the opposite direction. Or it may be brought about by alternating forward and backward movements. (Succession No. II may form by a process from D to A, or from A to D; succession No. II comprises both movements.)
VI.XXXIX.41

5) According to its mode of formation, differential rent may develop with a stationary, rising or falling price of the products of the soil. With a falling price the total production and the total rental may rise, and rent may form on hitherto rentless lands, even though the worst soil A may have been displaced by a better one, or may itself have become improved, and although the rent may decrease on other better, or even the best, lands (table II); this process may also be accompanied by a fall of the total rent (in money). Finally, when prices are falling on account of a general improvement of cultivation, so that the product and the price of the product of the worst soils decrease, the rent may remain the same or may fall on a part of the better soils, but rise on the best soils. It is true that the differential

rent of every soil, compared with the worst soil, depends upon the price, say, of the quarter of wheat, when the difference of the quantity of products is given. But when the price is given, differential rent depends upon the magnitude of the differences of the quantity of products, and if, with an increasing absolute fertility of all soils that of the better soil grows relatively more than that of the worse soil, the magnitude of this difference grows to that extent. In this way (see Table I), when the price is 60 shillings, the rent of D is determined by its differential product as compared to A, in other words, by its surplus of 3 quarters. The rent is therefore three times sixty, or 180 shillings. But in Table III, in which the price is 30 shillings, the rent is determined by the quantity of the surplus product of D as compared to A, that is 8 quarters, and therefore it is eight times thirty, or 240 shillings.

VI.XXXIX.42

This does away with the primitive misconception of differential rent still found among men like West, Malthus, Ricardo, to the effect that it necessarily requires a progress toward worse and worse soil, or an ever decreasing productivity of agriculture. It rather may exist, as we have seen, with a progress to a better and better soil; it may exist when a better soil takes the lowest position formerly occupied by the worst soil; it may be accompanied with a progressive improvement of agriculture. Its premise is merely the inequality of the different kinds of soil. So far as the development of productivity is concerned, it

implies that the increase of absolute fertility of the total area does not do away with this inequality, but either increases it, or leaves it unchanged, or merely reduces it somewhat.
VI.XXXIX.43

From the beginning to the middle of the 18th century England's cereal prices fell continually in spite of the falling prices of gold and silver, while at the same time (viewing this entire period) there was an increase of rent, of the rental, of the area of the cultivated lands, of agricultural production, and of the population. This corresponds to Table I combined with Table II in an ascending line, but in such a way that the worst land A is either improved or eliminated from the grain area; this does not imply that it was not used for other agricultural or industrial purposes.
VI.XXXIX.44

From the beginning of the 19th century (the date should be given more precisely) until 1815 there is a continual rise in the cereal prices, accompanied by a steady growth of the rent, of the rental, of the volume of the cultivated lands, of agricultural production, and of the population. This corresponds to Table I in a descending line. (Quote here some passages on the cultivation of inferior lands in those times.)
VI.XXXIX.45

In Petty's and Davenant's time, the farmers and land owners complain about the improvements and the breaking of new ground; the rent on the superior soils falls, the total rental increases through the extension of the soils yielding rent.
VI.XXXIX.46

(These three points should be illustrated later on by quotations; likewise the difference in the fertility of the different cultivated portions of the soil in a certain country.)
VI.XXXIX.47

The general rule in differential rent is that the market-value always stands above the total price of production of the mass of products. For instance, take Table I. The ten quarters of the total product are sold at 600 shillings, because the market price is determined by the price of production of A, which amounts to 60 shillings per quarter. But the actual price of production is:

A	1 qr. = 60 sh.	1 qr. = 60 sh.
B	2 qrs. = 60 sh.	1 qr. = 30 sh.
C	3 qrs. = 60 sh.	1 qr. = 20 sh.
D	4 qrs. = 60 sh.	1 qr. = 15 sh.
	10 qrs. = 240 sh.	Average 1 qr. = 24 sh.

VI.XXXIX.48

The actual price of production of these 10 quarters is 240 shillings. But they are sold at 600 shillings, 250% too dear. The actual average price for 1 quarter is 24 shillings; the market price is 60 shillings, also 250% too dear.
VI.XXXIX.49

This is a determination by the market-value, which is enforced on the basis of capitalist production by means of competition; it creates a false social value. This arises from the law of the market-value, to which the products of the soil are subject. The determination of the market-value of the products, including the products of the soil, is a social act, although performed by society unconsciously and unintentionally. It rests necessarily upon the exchange-value of the product, not upon the soil and its differences in fertility.
VI.XXXIX.50

If we imagine that the capitalistic form of society is abolished and society is organized as a conscious and systematic association, then those 10 quarters represent a quantity of independent labor, which is equal to that contained in 240 shillings. In that case society would not buy this product of the soil at two and a half times the labor time contained in it. The basis of a class of land owners would thus be destroyed. This would have the same effect as a cheapening of the product to the same amount by foreign imports. While it is correct to say that, by retaining the present mode of production but

paying the differential rent to the state, the prices of the products of the soil would remain the same, other circumstances remaining unchanged, it is wrong to say that the value of the products would remain the same, if capitalist production were superseded by association. The sameness of the market prices for commodities of the same kind is the way in which the social character of value asserts itself on the basis of capitalist production, as it does of any production resting on the exchange of commodities between individuals. What society in its capacity as a consumer pays too much for the products of the soil, what constitutes a minus for the realisation of its labor time in agricultural production, is now a plus for a portion of society, for the landlords.
VI.XXXIX.51

A second circumstance, important for the analysis to be given under II in the next chapter, is the following:
VI.XXXIX.52

It is not merely a question of the rent per acre, or per hectare, nor in general of a difference between the price of production and the market price, nor between the individual and general price of production per acre, but it is also a question of how many acres of each class of soil are under cultivation. The point of importance is here primarily the magnitude of the rental, that is, of the total rent of the entire cultivated area; but it serves us at the same time as a

transition to the development of a rise in the rate of the rent, although there is neither a rise in the prices, nor an increase in the differences of the relative fertility of the various kinds of soil when prices are falling.
VI.XXXIX.53

We had above:

Table. Click to enlarge in new window.
VI.XXXIX.54

Now let us assume that the number of cultivated acres is doubled in every class. Then we have:

Table. Click to enlarge in new window.
VI.XXXIX.55

Let us assume two other cases, and let the first be one, in which production expands on the two inferior classes of soil, in the following manner:

Table. Click to enlarge in new window.
VI.XXXIX.56

Finally let us assume an unequal expansion of production and of the cultivated area on all four classes, in the following manner:

Table. Click to enlarge in new window.
VI.XXXIX.57

In the first place, the rent per acre remains the same in all these four cases I, I a, I b and I c. For in fact the result of the same investment of capital per acre of the same class of soil has remained unchanged. Nothing more has been assumed than a fact which may be observed in any country at any given moment, namely that the various classes of soil participate in certain definite proportions in the entire cultivated area. And furthermore, a fact which may be observed in any two countries that are compared, or in the same country at different periods of time, namely that the proportion varies in which the cultivated area is distributed among these classes.
VI.XXXIX.58

If we compare Ia with I, then we see, if the cultivation of the soils of all four classes grows in the same proportion, that a doubling of the cultivated acres doubles the total production, and at the same time doubles the rent in grain and money.
VI.XXXIX.59

If we compare Ib and Ic successively with I, we see that in both cases a triplication of the area subject to cultivation takes place. It rises in both cases from 4 acres to 12, but in Ib it is the classes A and B which get the greatest share of the increase, although A pays no rent, and B yields the smallest differential rent. But of 8 newly cultivated acres A and B get 3 each, or 6 between the two of them, whereas C and D get only 1 acre each, or together 2 acres. In other words, three-quarters of the increase go to A and B, and only one-quarter to C and D. According to this assumption and comparing Ib with I, the trebled area of cultivation does not result in a trebled product, for the product does not increase from 10 to 30, but only to 26. On the other hand, seeing that a considerable portion of the increase takes place on A, which does not yield any rent, and since the principal portion of the remaining increase takes place on B, the rent in grain rises only from 6 quarters to 14, and the rent in money from 18 pounds sterling to 42.
VI.XXXIX.60

But if we compare Ic with I, where the soil yielding no rent does not increase in area, and the soil yielding a minimum rent increases but slightly, while the principal portion of the increase takes place on C and D, we find that the trebled area results in an increase of production from 10 quarters to 36, more than three times the quantity. The rent in grain has risen from 6 quarters to 24, or

quadrupled; and so has the money rent from 18 pounds sterling to 72.

VI.XXXIX.61

In all these cases the price of the agricultural product naturally remains stationary. The total rental increases in all cases with the extension of cultivation, unless it takes place exclusively on the worst soil, which does not pay any rent. But the growth is unequal. In proportion as the extension of cultivation takes place upon the superior classes of soil and consequently the quantity of the products grows not merely at the ratio of expansion of the area, but even faster, the rent in grain and money increases. In proportion as the worst soil and the class next above it share principally in the expansion of the area (provided that the worst soil represents a constant class), the total rental does not rise in proportion to the extension of cultivation. If there are two countries, in which the class A, that yields no rent, is of the same nature, the rental stands in the reverse ratio to the aliquot part represented by the worst soil and the lesser classes next above it in the total area of the cultivated soil, and therefore in the reverse ratio to the quantity of the products of equal investments of capital on the same total areas of land. The proportion between the quantity of the worst cultivated soil and that of the better soil, within the total cultivated area of a certain country, thus has the opposite effect upon the total rental than the proportion between the quality of the worst cultivated soil and that of the better

soil has upon the rent per acre and, other circumstances remaining the same, upon the total rental. The confounding these two things has given rise to many mistaken objections to differential rent.
VI.XXXIX.62

The total rental, then, increases by the mere extension of the cultivation, and by the consequent greater investment of capital and labor in the soil.
VI.XXXIX.63

But the most important point is this: Although it is our assumption that the proportion of the rents upon the various classes of soil remains the same, calculated per acre, and therefore also the rate of rent considered with reference to the capital invested in each acre, yet we must observe the following: If we compare Ia with I, the case in which the number of cultivated acres and the capital invested in them have been proportionately increased, we find that just as the total production has increased proportionately to the expanded agricultural area, that is just as both of them have been doubled, so has the rental. It has risen from 18 pounds sterling to 36, just as the number of acres has risen from 4 to 8.
VI.XXXIX.64

If we take the total area of 4 acres, we find that the total rental amounted to 18 pounds sterling, or the average rent, including the

soil which does not pay any rent, 4½ pounds sterling. This calculation might be made, say, by a landlord owning all 4 acres. And in this way the average rent is statistically calculated upon a whole country. The total rental of 18 pounds sterling is secured by the investment of a capital of 10 pounds sterling. We call the ratio of these two figures the rate of rent; in the present case it is 180%.
VI.XXXIX.65

The same rate of rent follows in Ia, where 8 instead of 4 acres are cultivated, but all classes of land have shared in the same proportion in the increase. The total rental of 36 pounds sterling gives for 8 acres and an invested capital of 20 pounds sterling an average rent of 4½ pounds sterling per acre and a rate of rent of 180%.
VI.XXXIX.66

But if we consider Ib, in which the increase has taken place mainly upon the two inferior classes of soil, we find there a rent of 42 pounds sterling upon 12 acres, or an average rent of 3½ pounds sterling per acre. The invested total capital is 30 pounds sterling, and the rate of rent 140%. The average rent per acre has decreased by one pound sterling, and the rate of rent has fallen from 180 to 140%. Here then we have an increase of the total rental from 18 pounds sterling to 42, and yet a fall of the average rent, calculated both per acre and per capital, while production grows also, but not proportionately. This takes place, although the rent upon all classes of

soil, both per acre and per capital, remains the same. It does so, because three-quarters of the increase go to the class A, which does not pay any rent, and upon class B, which pays only the minimum rent.
VI.XXXIX.67

If the total extension in the case Ib had taken place only upon the soil A, then we should have 9 acres upon A, 1 acre upon B, 1 acre upon C and 1 acre upon D. The total rental would be 18 pounds sterling, the same as before, the average rent upon the 12 acres would be 1½ p. st. per acre; and a rent of 18 pounds sterling on an invested capital of 30 pounds sterling would give a rate of rent of 60%. The average rent, both per acre and per invested capital, would have decreased, and the total rental would not have increased.
VI.XXXIX.68

Finally, let us compare Ic with I and Ib. Compared to I, the area has been trebled, also the invested capital. The total rental is 72 pounds sterling upon 12 acres, or 6 pounds sterling per acre against 4½ pounds sterling in case I. The rate of rent upon the invested capital (72: 30 pounds sterling) is 240% instead of 180%. The total product has risen from 10 quarters to 36.
VI.XXXIX.69

Compared to Ib, where the total area of the cultivated acres, the invested capital, and the difference between the cultivated classes are the same, but the distribution different, the product is 36 quarters instead of 26, the average rent per acre is 6 pounds sterling instead of 3½, and the rate of rent with reference to the same invested total capital is 240% instead of 140%.
VI.XXXIX.70

No matter whether we regard the various conditions in Tables Ia, Ib and Ic as existing side by side in different countries, or as existing successively in the same country, we come to the following conclusions: so long as we have the conditions mentioned hereafter, that is, so long as the price of cereals remains unchanged, because the worst rentless soil has the same product; so long as the differences in the productivity of the different cultivated soils remain the same; so long as the respective products of the same invested capitals are the same for aliquot parts (acres) of the areas cultivated in every class of soil; so long as the ratio between the rents per acre of each class of soils and with the same rate of rent upon the capital invested in each portion of the same kind of soil is constant: 1) the rental always increases with the extension of the cultivated area and with the consequent increased investment of capital, with the exception of the case in which the entire increase falls on the rentless soil. 2) Both the average rent per acre (total rental divided by the total number of acres) and the average rate of rent (total rental

divided by the invested total capital) may vary very considerably; both of them in the same direction, but in different proportions compared to one another. If we leave out of consideration the case, in which the increase takes place upon the rentless soil, we find that the average rent per acre and the average rate of rent upon the capital invested in agriculture depend upon the proportional shares, which the various classes of soil claim in the cultivated area; or, what amounts to the same, upon the distribution of the employed total capital among the classes of soil of different fertility. Whether much or little land is cultivated, and whether the total rental is therefore larger or smaller (with the exception of the case, in which the increase is confined to A) the average rent per acre, or the average rent per invested capital, remains the same so long as the proportions of the participation of the various classes of soil in the total cultivated area remain unchanged. In spite of the rise, even of a very considerable one, in the total rental with the extension of cultivation and the expansion of the invested capital, the average rent per acre and the average rent per capital fall whenever the extension of the rentless lands, or of the lands of inferior fertility, increases more than that of the superior rent paying ones. On the other hand the average rent per acre and the average rent per capital increase in proportion as the better lands constitute a greater part of the total area and employ a relatively greater share of the invested capital.

VI.XXXIX.71

Hence, if we consider the average rent per acre, or hectare, of the total cultivated soil, in the way that is generally done in statistical works, by comparing either different countries at different epochs, or different epochs in the same country, we find that the average level of the rent per acre, and consequently the total rental, corresponds in certain proportions (although by no means equal ones, but rather more rapidly moving ones) to the absolute, not to the relative, productivity of agriculture in a certain country, that is, to the mass of products brought forth by it on an average upon the same area. For the larger the share taken by the superior soils in the total cultivated area, the greater is the mass of products brought forth by equal investments of capital upon equally large areas of land. And the higher is the average rent per acre. In the opposite case the reverse takes place. In this way the rent does not seem to be determined by the ratios of differential fertility, but of absolute fertility, and the law of differential rent seems thereby abolished. For this reason certain phenomena are disputed, or perhaps they are explained by non-existing differences in the average prices of cereals and in the differential fertility of the cultivated lands, whereas such phenomena are merely due to the fact that the ratio of the total rental, either to the total area of the cultivated soil, or to the total capital invested in this soil, so long as the fertility of the rentless soil remains the same and with it the price of production, and so long as the differences of the various classes of soil remain unchanged, is determined not merely by the rent per acre or the rate of rent per capital, but quite as

much by the proportional number of acres of each class of soil in the total number of cultivated acres; or, what amounts to the same, by the distribution of the invested total capital among the various classes of land. Curiously enough this fact has been completely overlooked so far. At any rate we see (and this is important for the progress of our analysis), that the relative level of the average rent per acre, and the average rate of rent (or the ratio of the total rental to the total capital invested in the soil), may rise or fall, through the mere extensive expansion of cultivation, while prices remain the same, the differential fertilities of the various soils remain unaltered, and the rent per acre is constant, or while the rate of rent for the capital invested per acre in every actual rent paying class of soil, or for every rent paying capital, remains unchanged.

VI.XXXIX.72

We have to make the following additional remarks with reference to the form I of the differential rent, which also apply partly to form II:
VI.XXXIX.73

1) We have seen that the average rent per acre, or the average rate of rent per capital, may rise with an extension of cultivation, with stationary prices, and unaltered differential fertilities of the cultivated lands. As soon as all the land in a certain country has been appropriated, while the investment of capital in land, the cultivation of

the soil, and the population, have reached a certain level‘all of which conditions are matters of fact as soon as the capitalist mode of production becomes the prevailing one and invades also agriculture‘the price of the uncultivated soil of various classes (assuming differential rent to exist) is determined by the price of the cultivated lands of the same quality and equivalent location. The price is the same‘after deducting the cost of breaking the ground‘although this soil does not carry any rent. The price of the land is, indeed, nothing but the capitalised rent. But even in the case of cultivated lands their price pays only future rents, as for instance, when the regulating rate of interest is 5% and the rent for twenty years is paid in advance at one time. When land is sold, it is sold as a rent paying land, and the prospective character of the rent (which is here considered as a fruit of the soil, which it is only seemingly) does not distinguish the uncultivated from the cultivated soil. The price of the uncultivated lands, like their rent, which it represents as though it were its contracted formula, is quite illusory, so long as the land is not actually used. But it is thus determined beforehand and realised as soon as a purchaser is found. Hence, while the actual average rent of a certain land is determined by its real average rental per year and by its proportion to the entire cultivated area, the price of the uncultivated portions of land is determined by that of the cultivated land, and is therefore but a reflex of the capital invested in cultivated land and of the results obtained by such investments. Since all lands with the exception of the worst carry rent (and this rent, as we shall see

under the head of differential rent II, rises with the mass of the capital and the corresponding intensity of cultivation), the nominal price of the uncultivated portions of the soil is thus formed, and thus they become commodities, a source of wealth for their owners. This explains at the same time, why the price of land increases in the whole region, even in the uncultivated part (Opdyke). The speculation in land, for instance in the United States, rests merely upon this reflex, which capital and labor throw on the uncultivated land. VI.XXXIX.74

2) The advance in the extension of the cultivated soil in general takes place either toward inferior soil, or upon the various existing soils in different proportions according to the way in which they present themselves. The step toward inferior soil naturally is never made voluntarily, but cannot be due to anything but to rising prices (assuming the capitalist mode of production to be a fact), and under any mode of production it will be a result of necessity. However, this is not absolutely so. An inferior soil is preferred to a relatively better soil on account of its location, which decides the point during all extension of cultivation in new countries; furthermore for the reason that, while the formation of the soil in a certain region may belong to the superior ones, the better will nevertheless be relieved here and there by inferior soil, so that the inferior soil must be cultivated along with the superior on account of its location. If inferior soil is surrounded by superior soil, then the better soil gives to the poorer

soil the advantage of location as against other and more fertile soil, which is not connected with the already cultivated soil, or with soil about to be cultivated.
VI.XXXIX.75

In this way the state of Michigan was one of the first to export corn. Yet its soil is on the whole poor. But its vicinity to the state of New York and its water routes by lakes and by the Erie Canal gave to it the advantage before the naturally more fertile states which were farther west. The example of this state, as compared to the state of New York, shows us also the transition from superior to inferior soil. The soil of the state of New York, particularly the western portion of it, is far more fertile, particularly in the raising of wheat. This fertile soil was made sterile by robbing it, and now the soil of Michigan appeared as the more fertile.
VI.XXXIX.76

"In 1836 wheat flour was shipped from Buffalo to the West, principally from the wheat belt of New York and Canada. At present, only 12 years later, enormous supplies of wheat and flour are brought from the West, by way of Lake Erie, and shipped East upon the Erie Canal, in Buffalo and the neighboring port of Blackrock. The export of wheat and flour was particularly stimulated by the European famine in 1847. The wheat in western New York thus became cheaper, and the raising of wheat less profitable; this caused the New York farmers to

throw themselves more upon cattle raising and dairying, fruit growing, etc., lines in which the Northwest, in their opinion, will be unable to compete with them directly." (J. W. Johnston, Notes on North America, London, 1851, I, p. 222.)
VI.XXXIX.77

3) It is a mistaken assumption that the land in colonies, and in new countries generally, which can export cereals at cheaper prices, must for that reason be necessarily of a greater natural fertility. The cereals are not only sold below their value in such cases, but below their price of production, namely below the price of production determined by the rate of profit in the older countries.
VI.XXXIX.78

The fact that we, as Johnston says (p. 223) "are accustomed to connect with these new states, which ship annually such large supplies of wheat to Buffalo, the idea of great natural fertility and endless stretches of rich soil," depends primarily upon economic conditions. The entire population of such a country, for instance of Michigan, is at first almost exclusively engaged in agriculture, and particularly in producing agricultural goods in large masses, which they can alone exchange for products of industry and tropical goods. The whole surplus product of this population appears, therefore, in the shape of cereals. This distinguishes from the outset the colonial states founded on the basis of the modern world market from those of former,

particularly of antique, times. They receive from the world market finished products, which they would have to make themselves under different circumstances, such as clothing, tools, etc. Only on such a basis were the southern states of the Union enabled to make of cotton their staple product. The division of labor upon the world market permitted this. Hence, if they seem to produce a large surplus product in spite of their youth and small relative population, it is not due to the fertility of their soil, nor to the productivity of their labor, but to the onesided form of their labor, and therefore of the surplus product, in which this labor is incorporated.
VI.XXXIX.79

Furthermore, a relatively inferior soil, which is newly cultivated and was never touched by civilisation before, has accumulated much easily soluble plant food, at least in its upper layers, provided the climatic conditions are not extremely hard, so that it will yield crops without any manure for a long time, even with very superficial cultivation. The western prairies have the additional advantage of requiring hardly any expenses for clearing, since nature has cleared them herself.*127 In less fertile districts of this kind a surplus is produced, not through the great fertility of the soil or the yield per acre, but through the large number of acres, which may be superficially cultivated, because this soil costs the cultivator little or nothing compared with older countries. For instance, where share farming exists, as it does in certain parts of New York, Michigan, Canada, etc., there this condition is found. A

family cultivates superficially, say, 100 acres, and although the product per acre is not large, the product of 100 acres yields a considerable surplus for sale. In addition to this cattle may be kept on natural pastures for almost nothing, without any artificial grass meadows. It is the quantity, not the quality of the soil, which decides the point here. The possibility of this superficial cultivation is naturally more or less rapidly exhausted, in a reverse ratio to the fertility of the new soil, and in a direct ratio to the export of its products. "And yet such a country will yield excellent harvests, even of wheat; whoever skims the first cream off the soil, will be able to ship an abundant surplus of wheat to the market" (L. c., p. 224). In countries of older civilisation the property relations, the determination of the price of the uncultivated soil by that of the cultivated, etc., make such an extensive economy impossible.
VI.XXXIX.80

That this soil does not have to be very rich, as Ricardo imagines, nor soils of equal fertility have to be cultivated, may be seen from the following: In the state of Michigan 465,900 acres were planted in 1848 with wheat and produced 4,739,300 bushels, or an average of 10 1/5 bushels per acre; deducting the seed grain this leaves less than 9 bushels per acre. Of the 29 counties of this state 2 produced an average of 7 bushels, 3 an average of 8 bushels, 2 one of 9, 7 one of 10, 6 one of 11, 3 one of 12, 4 one of 13 bushels, and only

one county produced an average of 16 bushels, and another of 18 bushels per acre (L. c., p. 226).
VI.XXXIX.81

In practical agriculture a higher fertility of the soil coincides with a greater immediate utilisation of this fertility. This may be greater in a naturally poor soil than in a naturally rich one; but it is the kind of soil which a colonist will take up first, and must take up from lack of capital.
VI.XXXIX.82

4) The extension of cultivation to greater areas‘aside from the case just mentioned, in which recourse must be had to inferior soil than that hitherto cultivated‘upon the various classes of soil from A to D, for instance, the cultivation of larger tracts of B and C, does not presuppose by any means a previous rise of the prices of cereals, any more than the annually increasing expansion, for instance of cotton spinning, presupposes a continual rise in the price of yarn. Although a considerable rise or fall of market prices affects the volume of production, nevertheless, aside from this, that relative overproduction which is in itself identical with accumulation always takes place even with average prices, whose stand has neither a paralysing nor an exceptionally stimulating effect upon production. This takes place in agriculture as well as in all other capitalistically managed lines of production. Under different modes of production, this relative

overproduction is effected directly by the increase of population, and in colonies by continual immigration. The demand increases constantly, and in anticipation of this new capital is continually invested in new land, although the products of this land will vary according to circumstances. It is the formation of new capitals, which in itself brings this about. But so far as the individual capitalist is concerned, he measures the volume of his production by that of his available capital, to the extent that he himself can still superintend it. What he aims at is to occupy as much room as possible on the market. If there is any overproduction, he does not blame himself, but his competitors. The individual capitalist may expand his production by appropriating a larger aliquot share of the existing market, or by expanding the market itself.

Notes for this chapter

127.
[It is precisely the rapidly growing cultivation of such prairie or steppe districts which of late turns the renowned statement of Malthus, that the population "presses upon the means of subsistence," into ridicule, and has created the reverse of it in the complaints of the agrarians, who wail that agriculture and with it Germany will be ruined, unless the means of subsistence which are pressing upon the population are kept out by force. The cultivation of these steppes, prairies, pampas, Hanos, etc., is only in its beginnings; its revolutionising effect on

European agriculture will, therefore, make itself felt later on even more than hitherto.‘F. E.]

Part VI,

Volume III Chapter XL. THE SECOND FORM OF DIFFERENTIAL RENT.

(Differential Rent II.)

VI.XL.1

So far we have considered differential rent only as the result of the different productivity of different investments of capital upon equal areas of land with different fertilities, so that the differential rent was determined by the difference between the yield of the capital invested in the worst, rentless, soil and that of the capital invested in the superior soils, Here we had the invested capitals side by side upon different areas of land, so that every new investment of capital signified a more extensive cultivation of the soil, an expansion of the cultivated area. But in the last analysis the differential rent was by its nature merely the result of the different productivity of equal capitals invested in land.

VI.XL.2

But could it make any difference, perhaps, whether masses of capital of different productivities are invested successively on the same piece of land, or side by side on different pieces of land, provided that the results are the same?
VI.XL.3

In the first place, it cannot be denied that it is immaterial, so far as the formation of surplus profit is concerned, whether 3 pounds sterling of cost of production are invested in one acre of A and yield one-quarter of wheat, so that 3 pounds sterling are the price of production and regulating market price of 1 quarter, while 3 pounds sterling of cost of production applied to one acre of B give 2 quarters, and with them a surplus profit of 3 pounds sterling, while in the same way 3 pounds sterling of cost of production applied to one acre of C give 3 quarters and 6 pounds sterling of surplus profit, and finally 3 pounds sterling of cost of production applied to one acre of D give 4 quarters and 9 pounds sterling of surplus profit; or whether the same result is accomplished by applying these 12 pounds sterling of cost of production, or 10 pounds sterling of capital, with the same results and in the same succession upon one and the same acre. It is in either case a capital of 10 pounds sterling, a part of whose successively invested shares of a value of 2½ pounds sterling each, whether invested in four acres of different fertility side by side, or successively upon one and the same acre, does not yield any surplus profit on account of their different products, whereas the other parts yield a

surplus profit in proportion to the difference of their yield from that of the rentless investment.
VI.XL.4

The surplus profits and the various rates of surplus profit for different parts of the value of capital are formed in the same way in either case. And the rent is nothing but a form of this surplus profit, which constitutes its substance. But at any rate, there are some difficulties in this second method in the way of the transformation of surplus profit into rent, of this change of form, which implies the transfer of the surplus profit from the capitalist tenant to the owner of the land. This accounts for the obstinate resistance of the English tenants to an official statistics of agriculture. It accounts for the struggle between them and the landlords over the ascertainment of the actual results of an investment of capital (Morton). For the rent is fixed when the lease for the land is made out, and after that the surplus profits arising from excessive investments of capital flow into the pockets of the tenant so long as the lease lasts. Therefore the tenants fought for long leases, and on the other hand the landlords enforced by their superior numbers an increase of the tenancies at will, which could be cancelled annually.
VI.XL.5

It is evident from the outset that even though it is immaterial for the law forming the surplus profit, whether equal capitals are invested

with unequal results side by side upon equal areas of land, or whether they are invested successively on the same land, it does make a considerable difference for the conversion of surplus profit into ground-rent. The latter method confines this conversion within boundaries, which are narrower on one side and less definite on the other. For this reason the business of the tax assessor, as Morton shows in his "Resources of Estates," becomes a very important, complicated and difficult profession in countries with an intensive cultivation (and economically we mean by intensive cultivation nothing else but the concentration of capital upon the same piece of land, instead of its distribution over adjoining pieces of land). If the improvements of the soil are of the more permanent kind, the artificially raised differential fertility of the soil coincides with its natural fertility as soon as the lease expires, and this leads to the assessment of the rent by the basis of that which is due to the mere differences of fertility in different soils generally. On the other hand, so far as the formation of surplus profit is determined by the magnitude of the working capital, the amount of the rent paid by a certain amount of capital is added to the average rent of the country and care is taken that the new tenant commands sufficient capital to continue cultivation in the same intensive manner.

VI.XL.6

In the study of differential rent II, the following points must be noted:

VI.XL.7

1) Its basis and point of departure, not merely historically, but even as concerns its movements at any given period, is differential rent I, that is the simultaneous cultivation side by side of soils of different fertility and location; in other words the simultaneous application, side by side, of different portions of the total agricultural capital upon soil areas of different quality.

VI.XL.8

Historically this is a matter of course. In colonies the colonists have but little capital to invest. The principal agents of production are labor and land. Every individual head of a family seeks to acquire for himself and his, an independent field of employment, apart from that of his fellow colonists. This must be generally the case even under precapitalist modes of production in agriculture proper. In the case of sheep pastures, and generally of cattle raising as an independent line of production, the exploitation of the soil is more or less collective, and it is extensive from the outset. The capitalist mode of production starts out from former modes of production, in which the means of production are actually or legally the property of the tiller himself, in which agriculture is carried on by professionals. Naturally this mode of agriculture gives way but gradually to the concentration of means of production and their transformation into capital with a simultaneous change of direct producers into wage workers. So far as the capitalist

mode of production asserts itself here in a typical manner, it does so at first mainly in sheep pastures and cattle raising; after that it does not assert itself by a concentration of capital upon a relatively small area of land, but in production on a larger scale, so that the expense of keeping horses and other costs of production may be saved; but in fact not by investing more capital in the same land. It is furthermore in the nature of field tillage that capital, which implies at this stage also the means of production already produced, should become the dominating element of agriculture, when cultivation has reached a certain hight and the soil has become correspondingly exhausted. So long as the tilled land constitutes a small area compared to the untilled, and so long as the strength of the soil has not been exhausted (and this is the case so long as cattle raising prevails with meat as the staple food, before agriculture proper and plant food have become dominant), the beginnings of the new mode of production show their opposition to peasants' economy mainly by large tracts of land which are tilled for the account of some capitalist, in other words, the new mode of production itself starts out with an extensive application of capital to larger areas of land. It should therefore be remembered from the outset, that differential rent No. I is the historical basis from which a start is made. On the other hand, the movement of differential rent No. II puts in its appearance at any given moment only upon a territory, which is itself but the variegated basis of differential rent No. I.

VI.XL.9

2) In differential rent No. II, the differences in the distribution of capital (and of the ability to get credit) among tenants are added to the differences in fertility. In manufacture proper, each line of business rapidly develops its own minimum volume of business and a corresponding minimum of capital, below which no individual business can be carried on successfully. In the same way each line of business develops, above this minimum, a normal size of capital, which the mass of producers must be able to command and do command. Whatever exceeds this, can form extra profits; whatever is below this, does not get the average profit. The capitalist mode of production invades agriculture but slowly and unevenly, as may be seen in England, the classic land of the capitalist mode of production in agriculture. To the extent that no free importation of cereals exists, or that its effect is but limited, because its volume is small, the producers working upon inferior soil and thus with worse than average conditions of production determine the market price. A large portion of the total mass of capital invested in husbandry and available for it is in their hands.
VI.XL.10

It is true that the farmer spends much labor on his small plot of land. But it is labor isolated from the objective social and material conditions of productivity, labor robbed and stripped of these conditions.

VI.XL.11

This circumstance makes it possible for the real capitalist tenants to appropriate a portion of the surplus profit; this would not be so, at least so far as this point is concerned, if the capitalist mode of production were as uniformly developed in agriculture as in manufacture.

VI.XL.12

Let us first consider the formation of surplus profit in differential rent No. II, without taking notice for the present of the conditions under which the conversion of this surplus profit into ground rent may take place.

VI.XL.13

It is evident, in that case, that differential rent No. II is but a different expression of differential rent No. I, but that it coincides with it in substance. The different fertility of the various kinds of soil exerts its influence in the case of differential rent No. I only to the extent that it brings about unequal results of the capitals invested in the soil, so that the products of equal capitals, or of equal aliquot parts of unequal capitals, are unequal. Whether this inequality takes place for different capitals invested successively in the same land, or for capitals invested in various tracts of different classes of soil, cannot alter anything in the differences of fertility, or in the differences of their

products, nor in the formation of the differential rent for the more productively invested parts of capital. It is still the soil which shows different fertilities with the same investment of capitals, only that in this case the same soil does for a capital successively invested in different portions what different kinds of soil do in the case of differential rent No. I for various equally large portions of social capital invested in them.

VI.XL.14

If the same capital of 10 pounds sterling, which is shown by Table I to be invested in the shape of separate capitals of 2½ pounds sterling by different tenants in one acre of each of the soils A, B, C and D, were invested successively in one and the same acre D, so that its first investment yielded 4 quarters, the second 3 quarters, the third 2 quarters and the fourth 1 quarter (or vice versa), then the price of the 1 quarter, which is furnished by the least productive capital, namely the price of 3 pounds sterling, would not pay any differential rent, but would determine the price of production, so long as the supply of wheat with a price of production of 3 pounds sterling would be needed. And since our assumption is that the capitalist mode of production prevails, so that the price of 3 pounds sterling includes the average profit made by a capital of 2½ pounds sterling generally, the other three portions of capital of 2½ pounds sterling each will make surplus profits according to the difference of their product, since this product is not sold at their own price of production, but at the price

of production of the least productive investment of 2½ pounds sterling, which does not pay any rent and whose price of production is determined by the general law of prices of production. The formation of the surplus profits would be the same as in Table I. VI.XL.15

We see here once more that differential rent No. II is conditioned upon differential rent No. I. The minimum product raised by a capital of 2½ pounds sterling upon the worst soil is here assumed to be 1 quarter. Take it then that the tenant using soil of class D invests in this same soil, aside from the 2½ pounds sterling which raise 4 quarters and pay a differential rent of 3 quarters, still another capital of 2½ pounds sterling, which raise only 1 quarter, like the same capital upon the worst soil A. This would be a rentless investment, which would pay him only the average profit. There would be no surplus profit, which could be converted into rent. On the other hand, this decreasing yield of the second investment of capital in D would not have any influence on the rate of profit. It would be the same as though 2½ pounds sterling had been invested in another acre of the soil of class A, a circumstance which would in no way affect the surplus profit, nor for that reason the differential rent of the classes A, B, C, and D. But for the tenant this additional investment of 2½ pounds sterling in D would have been quite as profitable as the investment of the original 2½ pounds sterling had been per acre of D, according to our assumption, although this had raised 4 quarters.

Furthermore, if two other investments of 2½ pounds sterling each should yield an additional product of 3 quarters and 2 quarters respectively, another decrease would have taken place compared with the product of the first investment of 2½ pounds sterling in D, which amounted to 4 quarters and paid a surplus profit of 3 quarters, But it would be merely a decrease in the amount of surplus profit, and would not affect either the average profit or the regulating price of production. It would have such an effect only if the additional production yielding this decreasing surplus profit should make the production upon A superfluous and throw class A out of cultivation. In that case the decreasing fertility of the additional investments of capital in class D would be accompanied by a fall of the price of production, for instance from 3 pounds sterling to 1½ pounds sterling, and the class B would become the rentless regulator of the market price.
VI.XL.16

The product of D would not be 4 + 1 + 3 + 2 = 10 quarters, whereas it was only 4 quarters formerly. But the price per quarter as regulated by B would have fallen to 1½ pounds sterling. The difference between D and B would be 10-2 = 8 quarters, at 1½ pounds sterling per quarter, or 12 pounds sterling, whereas the money rent in D used to be 9 pounds sterling. This should be noted. Calculated per acre, the amount of the rent would have risen by 33

1/ 3% in spite of the decreasing rate of the surplus profits on the two additional capitals of 2½ pounds sterling each.
VI.XL.17

We see by this to what highly complicated combinations differential rent in general, and particularly form II coupled with form I, may give rise, whereas Ricardo, for instance, treats it very onesidedly and as a simple matter. One may meet, as in the above case, with a fall of the regulating market price and at the same time with a rise of the rent upon superior soils, so that both the absolute product and the absolute surplus product grow. (In differential rent No. I, in a descending line, the relative surplus product and thus the rent per acre may increase, although the absolute surplus product per acre may remain constant or even decrease.) But at the same time the fertility of the investments of capital made successively in the same soil decreases, although a large portion of them falls upon the superior lands. From a certain point of view‘both as concerns the product and the prices of production‘the productivity of labor has risen. But from another point of view it has decreased, because the rate of surplus profit and the surplus product per acre decrease for the various investments of capital in the same soil.
VI.XL.18

Differential rent No. II, with a decreasing fertility of the successive investments of capital, would be necessarily accompanied with a rise

of the price of production and an absolute decrease of the productivity only in the case that these investments of capital could be made on none but the worst soil A. If one acre of A, which raised with an investment of a capital of 2½ pounds sterling 1 quarter at a price of production of 3 pounds sterling, should raise only a total of 1½ quarters with an additional investment of 2½ pounds sterling, or a total investment of 5 pounds sterling, then the price of production of this 1½ quarter would be 6 pounds sterling, or that of one quarter 4 pounds sterling. Every decrease of the productivity with a growing investment of capital would imply a relative decrease of the product per acre in such a case, whereas it would signify only a decrease of the surplus product upon superior soils.
VI.XL.19

The nature of the matter will carry with it the fact that with the development of intensive culture, i.e., with successive investments of capital upon the same soil, mainly the superior soils will show this tendency, or will show it to a greater degree. (We are not speaking now of permanent improvements, by which a hitherto useless soil is converted into useful soil.) The decreasing fertility of the successive investments of capital must, therefore, have principally the effect indicated above. The better soil is chosen, because it offers the best prospects that the capital invested in it will be profitable, since this soil contains the greater quantity of the useful elements of fertility, which need but be utilised.

VI.XL.20

When after the abolition of the corn laws the cultivation in England was made still more intensive, a great deal of the former wheat land was used for other purposes, particularly for cattle pastures, while the tracts best adapted to wheat and fertile were drained and otherwise improved. The capital for wheat culture was thus concentrated into a more limited area.

VI.XL.21

In this case‘and all possible surplus rates between the highest surplus product of the best soil and the product of the rentless soil A coincide here, not with a relative, but with an absolute increase of the surplus product per acre‘the newly formed surplus profit (eventually rent) does not represent a portion of a former average profit converted into rent (not a portion of the product in which the average profit formerly incorporated itself) but an additional surplus profit, which converted itself out of this form into rent.

VI.XL.22

Only in the case in which the demand for cereals would increase to such an extent, that the market price would rise above the price of production of A, so that for this reason the surplus product of A, B, or any other class of soil could be supplied only at a higher price than 3 pounds sterling, would the decrease of the results of an

additional investment of capital in A, B, C and D be accompanied by a rise of the price of production and of the regulating market price. To the extent that this would last for a certain length of time without calling forth the cultivation of additional soil (which should be at least of the quality of A), or without bringing on a cheaper supply through other circumstances, wages would rise in consequence of the dearness of bread, other circumstances remaining the same, and the rate of profit would fall accordingly. In this case it would be immaterial, whether the increased demand would be satisfied by drawing upon inferior soil than A, or by additional investments of capital, no matter upon which of the four classes of soil. Differential rent would then rise in connection with a falling rate of profit.
VI.XL.23

This one case, in which the decreasing fertility of additional capitals invested in already cultivated soils may lead to an increase of the price of production, a fall in the rate of profit, and a formation of higher differential rents‘for this rent would rise under the given circumstances upon all classes of soil just as though inferior soil than A were regulating the market‘has been stamped by Ricardo as the only case, the normal case, to which he reduces the entire formation of differential rent No. II.
VI.XL.24

This would also be the case, if only the class A of soils were cultivated, and if successive investments of capital upon it were not accompanied by a proportional increase of the product.
VI.XL.25

Here then differential rent No. I is entirely lost sight of when analysing differential rent No. II.
VI.XL.26

With the exception of this case, in which the supply from the cultivated classes of soil is insufficient, so that the market price stands continually higher than the price of production, until new soil of an inferior character is taken under cultivation in addition to the others, or until the total product of the additional capitals invested in the various classes of soil can be supplied only at a higher price of production than the hitherto customary one, with the exception of this case the proportional decrease in the productivity of the additional capitals leaves the regulating price of production and the rate of profit unchanged. For the rest three cases are possible.
VI.XL.27

a) If the additional capital upon any one of the classes of soil A, B, C or D yields only the rate of profit determined by the price of production of A, then no surplus profit, and therefore no rent, is

formed, any more than there would be, if additional soil of the A class had been cultivated.
VI.XL.28

b) If the additional capital yields a larger product, then a new surplus profit (potential rent) is, of course, formed, provided the regulating price remains the same. This is not necessarily the case, namely it is not the case when this additional production throws the soil A out of cultivation and thus out of the succession of the competing soils. In this case the regulating price of production falls. The rate of profit would rise, if a fall in wages were connected with this, or if the cheaper product were to enter into the constant capital as one of its elements. If the increased productivity of the additional capital had taken place upon the best soils C and D, it would depend entirely upon the degree of the increased productivity and the mass of the additional capitals to what extent a formation of increased surplus profit (and thus increased rent) would be connected with the fall in prices and the rise of the rate of profit. This rate may also rise without a fall in wages, by a cheapening of the elements of constant capital.
VI.XL.29

c) If the additional investment of capital takes place with decreasing surplus profits, but in such a way that the product of such additional investment still leaves a surplus above the product of the same capital

in A, a new formation of surplus profits takes place under all circumstances, unless the increased supply throws the soil A out of cultivation. This new formation of surplus profit may take place simultaneously upon all four soils, D, C, B and A. But if the worst soil A is crowded out of cultivation, then the regulating price of production falls, and it will depend upon the proportion between the reduced price of 1 quarter and the increased number of quarters yielding a surplus profit, whether the surplus profit expressed in money, and consequently the differential rent, shall rise or fall. But at any rate we meet here with the peculiarity, that in spite of decreasing surplus profits of successive investments of capital the price of production may fall, instead of rising, as it seems it ought to do at first sight.
VI.XL.30

These additional investments of capital with decreasing surplus products correspond entirely to the case, in which four new and separate capitals would be invested in soils having a fertility ranging between A and B, B and C, C and D, for instance four capitals of 2½ pounds sterling each and yielding 1½, 2 1/3, 2 2/3, and 3 quarters respectively. Surplus profits (potential rents) would form upon all these kinds of soil for all four additional capitals, although the rate of surplus profit, compared with the surplus profit of the same investment of capital, on the corresponding better soil, would have decreased. And it would be immaterial, whether these four capitals were invested in D, etc., or distributed between D and A.

VI.XL.31

We now come to one essential difference between the two forms of differential rent.

VI.XL.32

With a constant price of production and constant differences, the rental and the average rent per acre, or the average rent per capital, may rise under differential rent No. I. But the average is a mere abstraction. The actual amount of the rent, calculated per acre or per capital, remains the same here.

VI.XL.33

On the other hand, under the same conditions, the amount of the rent calculated per acre may rise, although the rate of rent, measured by the invested capital, remains the same.

VI.XL.34

Let us assume that production is doubled by the investment of 5 pounds sterling in each of the soils A, B, C and D instead of 2½ pounds sterling, a total of 20 pounds sterling instead of 10 pounds sterling, with the relative fertilities unchanged. This would be the same as though 2 acres instead of 1 were being cultivated, with the same cost, on each one of these classes of soil. The rate of profit would remain the same, also its ratio to the surplus profit or the rent. But if

A were raising 2 quarters now, and B, 4, C, 6, D, 8, the price of production would nevertheless remain at 3 pounds sterling per quarter because this increment is not due to a doubled fertility of the same capital, but to the same proportional fertility of a doubled capital. The two quarters of A would now cost 6 pounds sterling, just as one quarter used to cost 3 pounds sterling. The profit would have doubled on all four classes of soils, but only because the invested capital did. But in the same proportion the rent would also have become doubled. It would now be two quarters for B instead of one, four for C instead of two, and six for D instead of three. And corresponding to this the money rent for B, C, and D would now be 6 pounds sterling, 12 pounds sterling, and 18 pounds sterling respectively. Like the product per acre, so the rent in money per acre would be doubled, and consequently the price of the land also, in which this rent is capitalised. If calculated in this manner, the amount of the rent in grain and money rises, and thus the price of land, because the standard by which the calculation is made, the acre, is a tract of a constant magnitude. On the other hand, calculating it as the rate of rent on the invested capital, no change has taken place in the proportional amount of the rent. The total rental of 36 is proportioned to the invested capital of 20 as the rental of 18 was proportioned to the invested capital of 10. The same holds good for the ratio of the money rent of all classes of soil to the capital invested in them, for instance, 12 pounds sterling of rent in C are proportioned to 5 pounds sterling of capital, as 6 pounds sterling of rent used to be

proportioned to 2½ pounds sterling of capital. No new differences arise here between the invested capitals, but new surplus profits arise, because the additional capital is invested in one of the rent paying soils, or in all of them, with the same proportional product. If this double investment were made only in one of these soils, for instance in C, the differential rent, calculated per capital, would remain the same between C, B, and D. For while its mass is doubled in C, so is the invested capital.
VI.XL.35

This shows that the amount of rent in products and money, and with it the price of the land, may rise while the price of production, the rate of profit, and the differences of fertility remain unchanged (and with them remain unchanged the rate of surplus profit or the rent, calculated on the capital).
VI.XL.36

The same may take place with decreasing rates of surplus profits and of rent, that is, with a decreasing productivity of the rent paying additional investments of capital. If the second investments of capital of 2½ pounds sterling had not doubled the product, but B would raise only 3½ quarters, C, 5 quarters, and D, 6 quarters, then the differential rent for the second capital of 2½ pounds sterling in B would be only ½ quarter instead of one quarter, in C, one quarter instead of two, and in D, two quarters instead of three. The

proportions between rent and capital for the two successive investments would then be as follows:

Table. Click to enlarge in new window.
VI.XL.37

In spite of this decreased rate of the relative productivity of capital and thus of surplus profit, calculated per capital, the rent in grain and money would have risen in B from one to one and a half quarter (from 3 to 4½ pounds sterling), in C, from two quarters to three (from 6 pounds sterling to 9 pounds sterling), and in D, from three quarters to five (from 9 pounds sterling to 15 pounds sterling). In this case the differences for the additional capitals, compared with the capital invested in A, would have decreased, the price of production would have remained the same, but the rent per acre, and consequently the price of the land per acre, would have risen.
VI.XL.38

The combinations of differential rent No. II, which are conditioned upon differential rent No. I as their basis, are analysed in the following chapters.

Part VI,

Volume III Chapter XLI. DIFFERENTIAL RENT II.—FIRST CASE: CONSTANT PRICE OF PRODUCTION.

VI.XLI.1

THIS assumption implies that the market price is regulated the same as ever by the capital invested in the worst soil A.

VI.XLI.2

1) If the additional capital invested in any one of the rent paying soils B, C, D, produces no more than the same capital upon the soil A, in other words, if it pays only the average profit by means of the regulating price of production, but no surplus profit, then the effect upon the rent is nil. Everything remains as it is. It is the same as though any number of acres of the A quality, of the worst soil, had been added to the cultivated area.

VI.XLI.3

2) The additional capital brings forth upon every one of the different soils additional products proportional to their magnitude; in other words, the volume of production grows according to the specific fertility of every class of soil, in proportion to the magnitude of the additional capital. We started out in chapter XXXIX from the following Table I:

Table. Click to enlarge in new window.

VI.XLI.4

This table is now transformed into Table II.

Table. Click to enlarge in new window.
VI.XLI.5

It is not necessary in this case that the investment of capital should be doubled in all classes of soil, as it does in this Table. The law is the same, so long as additional capital is invested in one, or several, of the rent paying soils, no matter in what proportion. It is only necessary that production should increase upon every kind of soil in the same ratio as the capital. The rent rises here merely in consequence of an increased investment of capital in the soil, and in proportion to this increase. This increase of the product and of the rent in consequence of, and proportionately to, the increased investment of capital is just the same, so far as the quantity of the product and of the rent is concerned, as though the cultivated area of the rent paying lands of the same quality had been increased and taken under cultivation with the same investment of capital as that previously invested in the same classes of land. In the case of Table II, for instance, the result would remain the same, if the additional capital of 2½ pounds sterling per acre were invested in one additional acre each of B, C and D.
VI.XLI.6

This assumption, furthermore, does not imply a more productive investment of capital, but only an investment of more capital upon the area with the same success as before.
VI.XLI.7

All proportional relations remain the same here. True, if we do not consider the proportional differences, but the purely arithmetical ones, then the differential rent may change upon the various classes of soil. Let us assume, for instance, that the additional capital has been invested only in B and D. In that case the difference between D and A is 7 quarters, whereas it was only 3 before; the difference between B and A is 3 quarters, whereas it was one; that between C and B is minus one, whereas it was plus one, etc. But this arithmetical difference, which is decisive in differential rent I, so far as it expresses the difference of productivity with equal investments of capital, is here quite immaterial, because it is a consequence of different additional investments, or of no additional investments, of capital, while the difference for each aliquot part of capital upon the various lands remains unchanged.
VI.XLI.8

3) The additional capitals bring forth surplus products and thus form surplus profits, but at a decreasing rate, not in proportion to their increase. TABLE III

Table. Click to enlarge in new window.
VI.XLI.9

In the case of this third assumption it is again immaterial, whether the additional second investments of capital are uniformly distributed over the various classes of soil or not; whether the decreasing production of surplus profit proceeds in equal or unequal proportions; whether the additional investments of capital fall all of them upon the same rent paying class of soil, or whether they are distributed equally or unequally over soils of different quality paying rent. All these circumstances are immaterial for the law which we are developing here. The only premise is that additional investments of capital must yield a surplus profit upon any one of the rent paying soils, but in a decreasing ratio to the amount of the increase of capital. The limits of this decrease move in the above illustration of Table III between 4 quarters = 12 p.st., the product of the first investment of capital upon the best soil D, and 1 quarter = 3 p.st., the product of the same investment of capital upon the worst soil A. The product of the best soil on the first investment of capital forms the maximum boundary, and the product of the same investment of capital in the worst soil A, which pays no rent and yields no surplus profit, forms the minimum limit of the product, which the successive investments of capital yield upon any of the various classes of soils producing a surplus profit with successive investments of capital and a decreasing productivity.

Just as assumption No. II corresponds to a condition, in which new pieces of the same quality are added to the cultivated area among the superior soils, so that the quantity of any one of the cultivated soils is increased, so assumption No. III corresponds to a condition, in which additional pieces of soil are cultivated in such a way that their various degrees of fertility are distributed among soils between D and A, among soils from the best to the worst kind. If the successive investments of capital take place exclusively upon the soil D, they may include the existing differences between D and A, likewise those between D and C and those between D and B. If all the successive investments are made upon soil C, they will comprise only differences between C and A and C and B; if made exclusively upon B, only differences between B and A.
VI.XLI.10

But this is the law: That the rent increases absolutely upon all these classes of soil, although not in proportion to the additional capital invested.
VI.XLI.11

The rate of surplus profit, considering both the additional capital and the total capital invested in the soil, decreases; but the absolute magnitude of the surplus profit increases. In like manner the decreasing rate of profit on capital in general is generally accompanied by an absolutely increasing mass of profit. Thus the average surplus

profit of the investment of capital upon B amounts to 90% on the capital, whereas it amounted to 120% on the first investment of capital. But the total surplus profit increases from one quarter to one and a half quarter, or from 3 pounds sterling to 4½ pounds sterling. Considering the total rent by itself‘and not comparing it with the doubled magnitude of the advanced capital‘it has risen absolutely. The differences of the rents of the various kinds of soil and their relative proportions may vary here; but this variation in the differences is here a consequence, not a cause, of the increase of the rents compared to one another.
VI.XLI.12

4) The case, in which the additional investments of capital upon the superior soils bring forth a greater product than the original ones, requires no further analysis. It is a matter of course that under this assumption the rent per acre will rise, and will do so at a greater rate than the additional capital, no matter upon which kind of soil the investment may have been made. In this case the additional investment of capital is accompanied by improvements. This includes the case, in which an additional investment of less capital produces the same or a greater result than did formerly an investment of more capital. This case is not quite identical with the former one, and this is a distinction, which is important in all investments of capital. For instance, if 100 make a profit of 10, and 200, employed in a certain form, make a profit of 40, then the profit has risen from 10% to

20%, and to that extent it is the same as though 50, employed in a more effective form, make a profit of 10 instead of 5. We assume here that the profit is combined with a proportional increase of the product. But the difference is this, that I must double the capital in the one case, whereas in the other I produce the double effect by the same capital. It is by no means the same whether I bring forth the same product as before with half as much living and materialized labor, or twice the product as before with the same labor, or four times the former product with twice the labor. In the first case, labor in a living or materialised form is released, which may be employed otherwise; the power to dispose of capital and labor increases. The release of capital (and labor) is in itself an augmentation of wealth; it has just the same effect as though this additional capital had been obtained by accumulation, but it saves the labor of accumulation. VI.XLI.13

Take it that a capital of 100 has produced a product of ten yards. The 100 may include both constant capital, living labor and profit. In that case one yard costs 10. Now if I can produce 20 yards with the same capital of 100, then one yard costs 5. On the other hand, if I can produce 10 yards with a capital of 50, then one yard likewise costs 5, and a capital of 50 is released, assuming the former supply of commodities to be sufficient. Again, if I have to invest 200 of capital in order to produce 40 yards, then one yard also costs 5. The determination of the value, or price, does not indicate such differences

as these, neither does the mass of products proportional to the investment of capital. But in the first case, capital is released; in the second case additional capital is saved to the extent that a duplication of production would be required; in the third case the increased product can be obtained only by an augmentation of the invested capital, although not in the same proportion as it would be if the increased product had to be supplied by the old productive power. (This belongs in Part I.)
VI.XLI.14

From the point of view of capitalist production the employment of constant capital is always cheaper than that of variable capital, not where it is a question of increasing the surplus-value, but of reducing the cost price. For a saving of costs even in the element creating the surplus-value, labor, performs this service for the capitalist and makes profit for him, so long as the regulating price of production remains the same. This presupposes in fact the existence of a development of credit and of an abundance of loan capital corresponding to the capitalist mode of production. On the one hand I employ 100 pounds sterling of additional constant capital, if 100 pounds sterling are the product of five laborers during one year; on the other hand, 100 pounds sterling in variable capital. If the rate of surplus-value is 100%, then the value created by those five laborers in 200 pounds sterling; on the other hand, the value of 100 pounds sterling of constant capital is 100 pounds sterling, or perhaps 105 pounds sterling

in its capacity as loan capital, if the rate of interest is 5%. The same sums of money express largely different values in product, according to whether they are advanced to production as values of constant or variable capital. Furthermore, as concerns the cost of the commodities from the point of view of the capitalist, there is also this difference that of 100 pounds sterling of constant capital only the wear and tear passes into the value of the product to the extent that this money is invested in fixed capital, whereas 100 pounds sterling invested in wages pas wholly into the values of commodities and must be reproduced in them.
VI.XLI.15

In the case of colonists and of independent small producers in general, who have no command at all over capital or at least command it only at a high rate of interest, that part of the product which stands in place of wages is their revenue, whereas it constitutes an investment of capital for the capitalist. The colonist, therefore, regards this expenditure of labor as the indispensable prerequisite of his product, which is the thing that interests him first of all. As for his surplus-labor, after deducting that necessary labor, it is evidently realised in a surplus-product and as soon as he can sell this, or even use it for himself, he looks upon it as something that cost him nothing, because it cost him no materialised labor. It is only the expenditure of materialised labor which appears to him as an outlay of wealth. Of course, he tries to sell as high as possible; but even a

sale below value and below the capitalist price of production still appears to him as a profit, unless this profit is claimed beforehand by debts, mortgages, etc. But for the capitalist the investment of both variable and constant capital represents an outlay of capital. The relatively large outlay of the capitalist reduces the cost-price, and in fact the value of commodities, provided other circumstances remain the same. Hence, although the profit arises only from surplus-labor, consequently only from the employment of variable capital, still it may seem to the individual capitalist that living labor is the most expensive element of his cost of production, which should be reduced to a minimum above all others. This is but a capitalistically distorted form of the correct view that the relatively greater use of past labor, compared to living labor, signifies an increase in the productivity of social labor and a greater social wealth. From the point of view of competition, everything appears thus distorted and invested.
VI.XLI.16

Assuming the prices of production to remain unchanged, additional investments of capital may be made with an unaltered, an increasing, or a decreasing productivity upon the better soils, that is upon all soils from B upward. Upon soil A this would be possible, under the conditions assumed by us, only in the case that productivity should remain the same, in which case this land continues to pay no rent, or in the case that productivity increases in which case a portion of the capital invested in A would produce rent, while the remainder would

not. But it would be impossible, if the productivity upon A were to decrease, for in that case the price of production would not remain unchanged, but would rise. But under all these circumstances the surplus-product and the surplus-profit corresponding to it increases per acre, and with them eventually the rent, in grain or in money, regardless of whether the surplus-product yielded by them is proportional to their magnitude, or above or below this proportion, regardless of whether the rate of the surplus-profit of capital remains constant, rises of falls when this capital increases. The growth of the mere mass of surplus-profit, or of the rent calculated per acre, that is, an increasing mass calculated on the same unaltered unit, in the present case on a definite quantity of land, such as an acre or an hectare, expresses itself as an increasing ratio. Hence the magnitude of the rent, calculated per acre, increases under such circumstances simply in consequence of the increase of the capital invested in the soil. This takes place when the price of production remain the same, no matter whether the productivity of the additional capital stays unaltered, or decreases, or increases. These last named circumstances modify the volume, in which the level of the rent per acre rises, but not the fact of this increase itself. This is a phenomenon, which is peculiar to differential rent No. II and distinguishes it from differential rent No. I. If the additional investments of capital, instead of being made successively one after another upon the same soil, were made side by side upon new additional soil of the corresponding quality, the mass of the rental would have increased, and, as previously shown,

the average rent of the cultivated total area would like wise have increased, but not the size of the rent per acre. When results remain the same so far as the mass the value of the total production and of the surplus product are concerned, the concentration of capital upon a smaller area of land develops the size of the rent per acre, whereas its distribution over a larger area, under the same circumstances, and other circumstances remaining the same, does not produce this effect. But the more the capitalist mode of production develops, the more develops also the concentration of capital upon the same area of land, and the higher rises the rent calculated per acre. Consequently, if we have two countries, in which the prices of production are identical, the differences of the various kinds of soil the same, and the same amount of capital invested, but in such a way that the investment is made in the form of successive outlays upon a limited area in one country, whereas in the other country it is made more in the shape of co-ordinated outlays upon a wider are, then the rent per acre, and with it the price of land, would be higher in the first and lower in the second country, although the mass of the rent would be the same in both countries. The difference in the size of the rent could not be explained in such a case out of the natural fertility of the various kinds of soil, nor out of the quantity of employed labor, but solely out of the different ways in which the capital is invested.

VI.XLI.17

In speaking of a surplus-product in this case, we mean that aliquot part of the product, in which the surplus-profit presents itself. Ordinarily we mean by surplus-product that portion of the product, in which the total surplus-value is materialised, or in some cases that portion, in which the average profit presents itself. The specific significance, which this term assumes in the case of rent-paying capital, give rise to misunderstanding, as we have shown in another place.

Part VI,

Volume III Chapter XLII. DIFFERENTIAL RENT II.—SECOND CASE: FALLING PRICE OF PRODUCTION.

VI.XLII.1

THE price of production may fall, when the additional investments of capital take place with an unaltered, a falling, or a rising rate of productivity.

I. The Productivity of the Additional Investment of Capital Remains the Same.

VI.XLII.2

In this case the assumption is that the product increases in the same proportion as the capital invested in the various soils and in accordance with their respective qualities. This implies, always assuming the differences of the various soil to remain unaltered, that the surplus-product increases in proportion to the increased investment of capital. This case, then, excludes any additional investment of capital upon soil A which might affect the differential rent. Upon this soil the rate of surplus-profit is 0; it remains 0, since we have assumed that the productive power of the additional capital and therefore the rate of surplus-profit remain the same.
VI.XLII.3

But under these conditions the regulating price of production can fall only, because instead of the price of production of A that of the next best soil B, or of any better soil than A, becomes the regulator; so that the capital is withdrawn from A, or perhaps from B and A, in case the price of production of C should become the regulating one and all inferior soil should be eliminated from the competition of the wheat raising soils. The prerequisite for this would be, under the assumed conditions, that the additional product of the additional investments of capital should satisfy the demand, so that the product of the inferior soils A, etc., would become superfluous for the formation of a full supply.
VI.XLII.4

Take, for instance, Table II, but in such a way that 18 quarters instead of 20 will satisfy the demand. Soil A would drop out; D and its price of production of 30 shillings would become regulating. In that case the differential rent would assume the following form:

Table. Click to enlarge in new window.
VI.XLII.5

In other words, compared to Table II the ground-rent would have fallen in money from 36 pounds sterling to 9 pounds sterling and in grain from 12 quarters to 6 quarters, whereas the total output would have fallen only by 2, from 20 to 18. The rate of surplus-profit, calculated on the capital, would have fallen by one-half, from 180% to 90%. The fall of the price of production in this case is accompanied by a decrease of the rent in grain and money.
VI.XLII.6

Compared to Table I there is merely a decrease in the money rent; the rent in grain in both cases is 6 quarters. But in the one case these bring 18 pounds sterling, in the other only 9 pounds sterling. So far as the soils C and D are concerned, the rent in grain compared to Table I remains the same. In face, owing to the additional production put forth by the uniformly working additional capital, the product of A has been pushed out of the market, the soil A has been eliminated

from the competition of the producing agents, and a new differential rent No. 1 has thus been formed, in which the better soil B plays the same role as formerly the inferior soil A. Consequently the rest of B disappears on the one side; on the other side nothing has been altered in the differences of B, C and D by the investment of additional capital, according to our assumption. For this reason that part of the product, which is converted into rent, is reduced.
VI.XLII.7

If the above result, the satisfaction of the demand with A left out, should have been accomplished by the investment of more than double the capital upon C or D, or upon both, then the matter would assume a different aspect. Let us suppose, that a third investment of capital is made upon C.

Table. Click to enlarge in new window.
VI.XLII.8

In this case, compared to Table IV, the product of C has risen from 6 quarters to 9, the surplus product from 2 quarters to 3, the money rent from 3 pounds sterling to 4½ pounds sterling. Compared to Table II, in which the money rent was 12 pounds sterling, and Table I, in which it was 6 pounds sterling, it has fallen off. The total rental in grain is 7 quarters. It has fallen compared to Table II, in which it was 12 quarters, but has risen compared to Table I, in which it was

6 quarters. In money the rest is 10½ pounds sterling and has fallen compared to both of the other Tables, in which it was 18 and 36 pounds sterling respectively.
VI.XLII.9

If the third investment of capital, amounting to 2½ pounds sterling, had been applied to soil B, it would indeed have altered the quantity of production, but would not have touched the rent, since the successive investments, according to our assumption, do not produce any differences upon the same soil, and soil B does not produce any rent.
VI.XLII.10

Again, if we assume that the third investment of capital takes place upon D instead of C, we get

Table. Click to enlarge in new window.
VI.XLII.11

Here the total product is 22 quarters, more than double that of Table I, although the invested capital is only 17½ pounds sterling as against 10 pounds sterling, in other words, not twice the size. The total product is also larger by 2 quarters than that of Table II, although the capital in it is larger, namely 20 pounds sterling.
VI.XLII.12

Compared to Table I, the rent in grain upon soil D has increased from 2 quarters to 6, whereas the money rent has remained the same, 9 pounds sterling. Compared to Table II the grain rent of D is the same, namely 6 quarters, but the money rent has fallen from 18 pounds sterling to 9 pounds sterling.
VI.XLII.13

Comparing the total rents, the grain rent of IV b is 8 quarters, larger than that of I which is 6 and than that of IV a which is 7 quarters; but it is smaller than that of II which is 12 quarters. The money rent of IV b, 12 pounds sterling, is larger than that of IV a, which is 10½ pounds sterling, and smaller than that of Table I, which is 18 pounds sterling and that of Table II, which is 36 pounds sterling.
VI.XLII.14

In order that the total rental under the conditions of Table IV b, after the elimination of the rent upon B, may be equal to that of Table I, we need 6 pounds sterling of surplus product more, that is, 4 quarters at 1½ pounds sterling, which is the new price of production. Then we shall have once more a total rental of 18 pounds sterling, the same as in Table I. The magnitude of the required additional capital will differ, according to whether we invest it upon C or D, or distribute it between these two.
VI.XLII.15

In the case of C 5 pounds sterling of capital result in a surplus product of 2 pounds sterling, consequently 10 pounds sterling of additional capital will result in 4 quarters of additional surplus product. In the case of D 5 pounds sterling of additional capital would suffice for the purpose of producing 4 quarters of additional grain rent, under the conditions assumed here, namely that the productivity of the additional investments of capital will remain the same. We should then get the following Tables:

Table. Click to enlarge in new window.

Table. Click to enlarge in new window.
VI.XLII.16

The total money rental would be exactly one-half of what it was in Table II, where the additional capitals were invested under conditions, in which the prices of production remained the same.
VI.XLII.17

The most important thing is to compare the above Tables with Table I.
VI.XLII.18

We find that the total money rental has remained the same, namely 18 pounds sterling, while the price of production has fallen by one-half, from 60 shillings to 30 shillings per quarter, and that the grain rent has been correspondingly duplicated, from 6 quarters to 12. The rent upon B has disappeared; the money rent has risen by one-half in IV c, but fallen by one-half in IV d; upon D the money rent has remained the same, 9 pounds sterling, in IV c, and has risen from 9 pounds sterling to 15 pounds sterling in IV d. The production has risen from 10 quarters to 34 in IV c, and to 30 quarters in IV d; the profit from 2 pounds sterling to 5½ pounds sterling in IV c and to 4½ pounds sterling in IV d. The total investment of capital has risen in one case from 10 pounds sterling to 27½ pounds sterling, and in the other from 10 pounds sterling to 22½ pounds sterling, in either case by more than one-half. The rate of rent, that is, the rent calculated on the invested capital, is everywhere the same in all the Tables from IV to IV d for the respective kinds of soils, for this was implied by the assumption that every kind of soil should retain the same rate of productivity with the two successive investments of capital. But compared to Table I, this rate has fallen, both for the average of all kinds of soil and for each one of them individually. In Table I it was 180% on an average, whereas in IV c it is (18 ÷ 27½) × 100 = 65 5/11% and in IV d it is (18 ÷ 22½) × 100 = 80%. The average money rent per acre has risen. Formerly, in Table I, its average was 4½ pounds sterling per acre upon all four acres, whereas now, in IV c and IV d, it is 6 pounds sterling per acre upon

the three acres. Its average upon the rent paying soil was formerly 6 pounds sterling, whereas now it is 9 pounds sterling per acre. Hence the money value of the rent per acre has risen, and represents now double the grain product that it did formerly; but the 12 quarters of grain rent are now less than one-half of the total product of 33 and 27 quarters respectively, whereas in Table I the 6 quarters represent 3/5ths of the total product of 10 quarters. Consequently, although the rent as an aliquot part of the total product has fallen, and has also fallen when calculated on the invested capital yet its money-value, calculated per acre, has risen and still more its value as a product. If we take soil D in Table IV d, we find that the cost of production expended in it amounts to 15 pounds sterling, of which 12½ pounds sterling are invested capital. The money rent is 15 pounds sterling. In Table I, for the same soil D, the cost of production was 3 pounds sterling, the invested capital 2½ pounds sterling the money rent 9 pounds sterling, that is, the money rent amounted to three times the cost of production and almost four times the capital. In Table IV d, the money rent for D, 15 pounds sterling, is exactly equal to the cost of production and only by 1/5th larger than the capital. Nevertheless the money rent per acre is two-thirds larger, namely 15 pounds sterling instead of 9 pounds sterling. In Table I the grain rent of 3 quarters constitutes three quarters of the total product of 4 quarters; in Table IV d it is 10 quarters, or one-half of the total product of 20 quarters of one acre of D. This shows that the money value and grain value of the rent per acre may rise, although it forms a smaller

aliquot part of the total yield and has fallen in proportion to the invested capital.
VI.XLII.19

The value of the total product in Table I is 30 pounds sterling. The rent is 18 pounds sterling, more than one-half of it. The value of the total product of IV d is 45 pounds sterling, the rent is 18 pounds sterling, or less than one-half of it.
VI.XLII.20

The reason, why in spite of the fall of the price by 1½ pounds sterling per quarter, a fall of 50%, and in spite of the reduction of the competing soil from 4 acres to 3, the total rent remains the same and the grain rent is doubled, while on a calculation per acre both the grain rent and money rent rise, is that more surplus product is created. The price of grain falls by 50%, the surplus product increases by 100%. But in order to accomplish this result, the total production under the conditions assumed by us must be trebled, and the investment of capital upon the superior soils must be more than doubled. In what proportion this last factor must increase, depends in the first place upon the distribution of the additional investments of capital among the superior and best kinds of soil, always assuming that the productivity of the capital upon every kind of soil increases proportionately to its size.
VI.XLII.21

If the fall of the price of production were smaller, less additional capital would be required for the production of the same money rent. If the supply required for the purpose of throwing soil A out of cultivation‘and this depends not merely upon the product per acre of A, but also upon the proportional share taken by A in the entire cultivated area‘were larger, and with it also the amount of additional capital required upon better soils they A, then, other circumstances remaining the same, the money rent and the grain rent would have increased still more, although both of them would disappear upon the soil B.
VI.XLII.22

If the eliminated capital of A had been 5 pounds sterling, we should have to compare Tables II and IV d: The total product would have increased from 20 quarters to 30. The money rent would be only half as large, that is, 18 pounds sterling instead of 36 pounds sterling; the grain rent would be the same, namely 12 quarters.
VI.XLII.23

If a total product of 44 quarters, valued at 66 pounds sterling, could be produced upon D with a capital of 27½ pounds sterling‘ corresponding to the old rate of D, 4 quarters per 2½ pounds sterling of capital‘then the total rental would once more reach the level of Table II, and we should get the following diagram:

Table. Click to enlarge in new window.
VI.XLII.24

The total production would be 54 quarters as against 20 quarters in Table II, and the money rent would be the same, 36 pounds sterling. But the total capital would be 37½ pounds sterling, whereas it was 20 in Table II. The invested total capital would almost be doubled, while production would be nearly trebled; the grain rent would have been doubled, the money rent would have remained the same. Hence, if the price falls as a result of the investment of additional money-capital, while productivity remains the same, upon the better soils which pay rent, that is, all soils above A, then the total capital has a tendency not to increase in the same proportion as the production and the grain rent; so that the increase of the grain rent may offer a compensation for the loss in money rent due to the falling price. The same law also manifests itself through the fact that the invested capital must be larger in proportion as it is more largely invested upon C than D, upon the soils paying a smaller rent rather than upon the soils paying a larger rent. The point is simply this: In order that the money rent may remain the same or rise, a certain additional quantity of surplus product must be created, and this requires less capital in proportion as the productivity of the soils yielding a surplus product is greater. If the difference between B and C, C and D were still greater, still less additional capital would be required. The

proportion is determined 1) by the proportion in which the price falls, in other words, by the difference between soil B, which is not paying any rent now, and soil A, which formerly was the soil that did not pay any rent; 2) by the proportion between the differences of the better soils from B upward; 3) by the amount of newly invested additional capital, and 4) by its distribution among the different qualities of soil.
VI.XLII.25

In fact, we see that this law expresses merely the same thing which we ascertained already in the case of the first illustration: When the price of production in given, no matter what may be its figure, the rent may increase in consequence of additional investments of capital. For owing to the elimination of A, we have now a new differential rent No. I with B as the worst soil and 1½ pounds sterling per quarter as the new price of production? This applies to Tables IV as well as to Table II. It is the same law, only that we have as a basis soil B instead of A, and a price of production of 1½ pounds sterling instead of 3 pounds sterling.
VI.XLII.26

The important thing here is this: To the extent that so and so much additional capital was necessary for the purpose of withdrawing the capital from soil A and satisfying the supply without it, we find that this may be accompanied by an unaltered, a rising, or a falling rent

per acre, if not upon all soils, then at least upon some and so far as the average of the cultivated lands is concerned. We have seen that the grain rent and the money rent do not maintain a uniform ratio to one another. However, it is merely due to tradition that grain rent is still playing any role at all in political economy. One might demonstrate equally well that a manufacturer can buy much more of his own yarn with his profit of 5 pounds sterling than he could formerly with a profit of 10 pounds sterling. It shows at any rate, that the landlords, when they are at the same time owners or partners of manufacturing establishments, sugar factories, distilleries, etc., may still make a considerable profit even when the money rent is falling, in their capacity as producers of their own raw materials.*128

II. The Rate of Productivity of the Additional Capitals Decreases.

VI.XLII.27

This does not carry anything new into the problem, in so far as the price of production may also fall in this case as in the previously considered one, when additional investments of capital upon better soils than A make the product of A superfluous and withdraw the capital from A, or lead to the employment of A for the production of other things. We have analysed this eventuality exhaustively. We have

shown that in this case the rent in grain and money per acre may increase, decrease, or remain unchanged.
VI.XLII.28

For the purpose of easy comparison we reproduce

Table. Click to enlarge in new window.
VI.XLII.29

Now let us assume that the figure of 16 quarters, supplied by B, C, D, with a decreasing rate of productivity, suffices to throw A out of cultivation. In that case Table III is transformed into the following

Table. Click to enlarge in new window.
VI.XLII.30

Here the rate of productivity of the additional capitals is decreasing, and the decrease is different upon different soils, while the regulating price of production has fallen from 3 pounds sterling to 1 5/7 pounds sterling. The investment of capital has risen by one-half, from 10 pounds sterling to 15 pounds sterling. The money rent has fallen by almost one-half, from 18 pounds sterling to 9 3/7 pounds sterling, while the grain rent has fallen only by one-twelfth, from 6 quarters to 5½ quarters. The total product has risen from 10 to 16, or by 160%. The grain rent constitutes a little more than one-third of the total

product. The advanced capital has a ratio of 15 to 9 8/7 to the money rent, whereas formerly this ratio was 10 to 18.

III. The Rate of Productivity of the Additional Capitals Increases.

VI.XLII.31

This differs from Case I in the beginning of this chapter, in which the price of production falls while the rate of productivity remains the same, merely by the fact that soil A is thrown more quickly out of competition, if an increase of the product is required to effect this.
VI.XLII.32

This may work its effects differently, according to the distribution of the investments over the various soils, no matter whether productivity be rising or falling. In proportion as these different effects balance the differences, or accentuate them, the differential rent of the better soils, and with it the total rental, will fall or rise, as we have seen in discussing differential rent No. I. For the rest, everything depends upon the size of the area and of the capital, which are thrown out of competition together with soil A, and upon the relative advanced of capital required with a rising productivity for the purpose of supplying the capital which is to cover the demand.
VI.XLII.33

The only point which it is worth while to analyse here, and which alone carries us back to the investigation of the way in which this differential profit is converted into differential rent, is the following:
VI.XLII.34

In the first case, in which the price of production remains the same, the additional capital which may be invested in the soil A is immaterial for the differential rent as such, since this soil A does not yield any rent now any more than it did before, the price of its product remains the same and continues to regulate the market.
VI.XLII.35

In the second case of Variant No. I, in which the price of production falls while the rate of productivity remains the same, soil A will necessarily be thrown out, and still more so in Variant No. II, in which both the price and production and the rate of productivity fall, since otherwise the additional capital upon soil A would have to raise the price of production. But here, in Variant No. III of the second case, in which the price of production falls, because the productivity of the additional capital rises, this additional capital may eventually be invested upon the soil A as well as upon the better soils.
VI.XLII.36

We will assume that an additional capital of 2½ pounds sterling, when invested upon the soil A, produces 1 1/5 quarter instead of 1 quarter.

Table. Click to enlarge in new window.
VI.XLII.37

This Table VI should be compared with both Basic Tables I and Table II, in which the double investment of capital is combined with a constant productivity proportional to the investment of capital.
VI.XLII.38

According to our assumption the regulating price of production falls. If it were to remain constant, at 3 pounds sterling, then the worst soil which used to pay no rent with an investment of 2½ pounds sterling, would then yield a rent, although no worse soil would have been drawn into cultivation. This would have been accomplished by increasing the productivity of this soil, but only for a part, not for the original capital invested in it. The first 3 pounds sterling of cost of production bring 1 quarter; the second bring 1 1/5 quarter; but the entire product of 2 1/5 quarters is now sold at its average price.
VI.XLII.39

Since the rate of productivity increases with the additional investment of capital, this implies an improvement. This may consist of a general increase of the capital per acre (more fertilizer, more mechanical labor, etc.), or it may be due exclusively to this additional investment that any difference in the quality and productiveness of the investment

is brought about. In both cases the investment of 5 pounds sterling of capital per acre brings forth a product of 2 1/5 quarters, whereas the investment of the one-half of this capital, or 2½ pounds sterling, brought forth a product of only 1 quarter. The product of the soil A, leaving aside the question of transient market conditions, could not continue to be sold at a higher price of production instead of all the new average price unless a considerable area of the class A would remain under cultivation with a capital of only 2½ pounds sterling. But as soon as the new scale of 5 pounds sterling of capital per acre would become universal, and with it an improvement of cultivation, the regulating price of production would have to fall to 2 8-11 pounds sterling. The difference between the two portions of capital would disappear, and in that case the cultivation of one acre of soil A with a capital of only 2½ pounds sterling would be abnormal, would not correspond to the new conditions of production. It would then no longer be a difference between the yields of different portions of capital upon the same acre, but between a sufficient and an insufficient investment of capital per acre. This shows, 1), that an insufficient capital in the hands of large number of capitalist farmers (it must be a large number, for a small number would simply be compelled to sell below their price of production) produces the same effect as a differentiation of soils in a descending line. The inferior cultivation upon inferior soil increases the rent upon the superior soils; it may even create a rent upon better cultivated soil of the inferior kind, which would otherwise yield no rent. It shows, 2), that

differential rent, to the extent that it arises from successive investments of capital in the same total area, resolved itself in reality into an average, in which the effects of the different investments of capital are no longer visible and distinguishable, so that the worst soil does not yield any rent, but rather, a), the average price or the total product of, say, one acre of A is made the new regulating price, and, b), the effects of the different investment of capital appear as changes in the total quantity of capital per acre, which is required under the new conditions for the adequate cultivation of the soil, and thus the individual successions of invested capital as well as their respective effects are indistinguishably amalgamated. It is the same with the individual differential rents of the superior kinds of soil. In every case they are determined by the difference of the average products of the various soils, compared to the product of the worst soil, with the increase of capital which has become the normal one. VI.XLII.40

No soil yields any product without an investment of capital. Even in the case of simple differential rent, or differential rent No. I, some capital must be invested. When we say that one acre of class A, which regulates the price of production, gives so and so much of a product at that and that price, and that the superior soils B, C and D yield so much differential product and so much money rent at the regulating price of production, it is always understood that a certain amount of capital is invested in A which is normal under the

prevailing conditions. In the same way a certain minimum capital is required for every individual line of industry, in order that commodities may be produced at their price of production.
VI.XLII.41

If this minimum is altered in consequence of successive investments of capital which are accompanied by improvements, it is done gradually. So long as a certain number of acres, say, of A, do not receive this additional first capital, a rent is created upon the better cultivated portions of A by the unaltered price of production, and the rent of all superior soils, such as B, C, D, is raised. But as soon as the new method of cultivation has become general enough to be the normal one, the prices of production falls; the rent of the superior soils declines then, and that portion of the soil A, which does not enjoy the normal running capital, must sell its product below its individual price of production, and therefore below the average profit.
VI.XLII.42

In the case of a falling price of production this happens also, even assuming the productivity of the additional capital to be decreasing, as soon as the required total product is supplied in consequence of increased investments of capital by the superior classes of soil, so that the running capital is withdraw, say, from A and A does not compete any longer in the production of this one staple, say wheat. The quantity of capital, which is now required on an average as an

investment upon the new regulating soil, B, is now considered the normal one; and when we speak of the different fertility of the soils, it is understood that this new normal quantity of capital is employed per acre.
VI.XLII.43

On the other hand, it is evident that this average investment of capital, for instance 8 pounds sterling per acre in England before 1848, and 12 pounds sterling after that year, will form the standard in the making of leases for land. For any capitalist farmer spending more than that the surplus profit does not assume the form of rent during the time of his contract. Whether this takes place after the expiration of his contract, will depend upon the competition of the capitalist farmers, who are in a position to make the same extra advance. We are not speaking here of such permanent improvements of the soil as continue to guarantee an increased product with the same or with even a decreasing investment of capital. Such improvements, although products of capital, have the same effect as the natural differences of quality of the land.
VI.XLII.44

We see, then, that an element must be considered in the case of differential rent No. II, which does not appear in differential rent No. I as such, since this last rent may continue independently of any change in the normal investment of capital per acre. It is on one

hand the obliteration of the results of different investments of capital upon the regulating soil A, the product of which now appears simply as a normal average product per acre. It is on the other hand the change in the average minimum, or in the average magnitude of invested capital per acre, so that this change presents itself as a quality of the soil. It is finally the difference in the manner of transforming surplus profit into the form of rent.
VI.XLII.45

Table VI shows furthermore, compared with Tables I and II, that the grain has increased more than double as compared to I, and by 1 1/5 quarters as compared to II; while the money rent has doubled as compared to I, but has not changed as compared with II. It would have increased considerably, if (other conditions remaining the same) the additional capital had been placed more upon the superior soils, or if the effects of the addition of capital to A had been less appreciable, so that the regulating average price of the quarter from A had stood higher.
VI.XLII.46

If the increase of productivity by means of additional capital should produce different results upon different soils, it would cause a change in their differential rents.
VI.XLII.47

At any rate we have demonstrated, that the rent per acre, for instance with a doubled capital, may not only be doubled, but more than doubled, while the price of production is falling in consequence of an increased rate of productivity of the additional capitals (as soon as the productivity grows at a greater rate than the advance of capital). But it may also fall, if the price of production should fall much lower as a result of a more rapid increase of productivity upon the soil A.
VI.XLII.48

Let us assume that the additional investments of capital, for instance upon B and C, do not increase the productivity as much as they do upon A, so that the proportional differences would decrease for B and C, and the increase of the product did not make up for the fall in price, then, compared to Table II, the rent upon D would rise, and would fall upon B and C:

Table. Click to enlarge in new window.
VI.XLII.49

Finally, the money rent would rise, if more additional capital were invested upon the superior soils under the same proportional increase of fertility than upon A, or if the additional investments of capital upon the superior soils worked with an increasing rate of productivity. In both cases the differences would increase.

VI.XLII.50

The money rent falls, when the improvement due to additional investments of capital which reduces the differences all over, or in part, affects A more than B and C. It falls so much the more, the less the productivity of the superior soils increases. It depends upon the proportion of inequality in the effects, whether the grain rent shall rise, fall, or remain stationary.

VI.XLII.51

The money rent rises, and so does the grain rent, assuming the proportional difference in the additional fertility of the different soils to remain unaltered, when more capital is added to the rent paying soils than to the rentless soil A, and more capital placed upon the soils with high than those with low rents, or when the fertility, assuming the same additional capital to be used, increases more upon the better and best soils than upon A, and at that in proportion as this increase in fertility is greater upon the better classes of soil than upon the lesser ones.

VI.XLII.52

But under all circumstances the rent rises relatively, when the increased productive power is a result of an addition of capital, and not merely a result of increased fertility with an unaltered investment of capital. This is the absolute point of view, which shows that here,

as in former cases, the rent and the increased rent per acre (as in the case of differential rent I upon the entire cultivated area‘the amount of the average rental) are a result of an increased investment of capital in the soil, no matter whether this capital does its work with a constant rate of productivity at constant or decreasing prices, or with a decreasing rate of productivity at constant or falling prices, or with an increasing rate of productivity at falling prices. For our assumption of a constant price with a constant, falling, or rising rate of productivity of the additional capitals, and of a falling price with a constant, falling, or rising rate of productivity, resolves itself into a constant rate of productivity of the additional capital at constant or falling prices, a falling rate of productivity at constant or falling prices, and a rising rate of productivity at constant and falling prices. Although the rent may remain stationary or may fall in all these cases, it would fall more, if the additional investment of capital, other circumstances remaining the same; were not a prerequisite of an increased fertility. An addition of capital, then, is always the cause of the relative magnitude of this rent, although it may have decreased absolutely.

Notes for this chapter

128.
The above Tables IV a to IV d had to the figured over on account of an error of calculation which ran though all of them. While this did

not affect the theoretical conclusions drawn from these Tables, it carried monstrous figures concerning the production per acre into them. Even these would not be objectionable on principle. In all maps showing geographical conditions in relief or giving a view of altitudes in profile it is customary to choose a much larger scale for the vertical then for the horizontal lines. Nevertheless, should any one feel that his agrarian heart is injured thereby, he is at liberty to multiply the number of acres with any figure that will satisfy him. One might also choose 10, 12, 14, 16 bushels (8 bushels = 1 quarter) per acre instead of 1, 2, 3, 4 quarters in Table I, and in that case the figures of the other Tables which are developed out of them would remain within the limits of probability; it will be found that the result, the proportion of increase in the rent compared to the increase in capital, comes to the same thing. This has been done in the following Tables, which were added by the editor.‘F. E.

Part VI,

Volume III Chapter XLIII.

DIFFERENTIAL RENT NO. II.—THIRD CASE: RISING PRICE OF PRODUCTION.

VI.XLIII.1

[A RISING price of production presupposes that the productivity of the least productive quality of land, which pays no rent, decreases. The regulating price of production cannot rise above 3 pounds sterling per quarter, unless the 2½ pounds sterling invested in soil A produce less than one-quarter, or the 5 pounds sterling less than two-quarters, or unless, even inferior soil than A has to be taken under cultivation.

If the productivity of the second investment of capital should remain the same, this would be possible only in the case that the productivity of the first investment of capital would have decreased. This case occurs often enough. It happens, for instance, when the top soil, exhausted and superficially plowed, produces inferior crops with the old style of cultivation, and when the subsoil, thrown up by deeper plowing, produces better crops than formerly under a more rational treatment. But strictly speaking this special case does not belong here. The falling off in the productivity of the first investment of 2½ pounds sterling implies for the superior soils, even when conditions with them should be analogous, a decrease of the differential rent No. I; but here we are considering only differential rent No. II. Since the present special case cannot occur without the previous existence of differential rent No. II, but represents in fact a reaction of a certain modification of differential rent No. I upon No. II, we will give and illustration of it.

Table. Click to enlarge in new window.

The money rent, and the yield in money, are the same as in Table II. The increased regulating price of production makes up exactly for what has been lost in the quantity of the product; since both of them vary in an inverse proportion, it is a matter of course that the product of both will remain the same.

In the above case we had assumed that the productive power of the second investment of capital was higher than the original productivity of the first investment. The matter remains the same, if we assume that the second investment has only the same productivity as that of the first, as shown in the following:

Table. Click to enlarge in new window.

Here likewise the rising of the price of production at the same ratio fully compensates for the decrease in the productivity both in the yield and rent in money.

The third case shows itself in its pure form only when the second investment of capital declines in its productivity, while that of the first remains constant, as assumed everywhere in the first and second cases. Here differential rent No. I is not touched, the change affects only that part which arises from differential rent No. II. We give below two illustrations: In the first we assume that the productivity of

the second investment of capital has been reduced by one-half, in the second by one-fourth.

Table. Click to enlarge in new window.

Table IX is the same as Table VIII, only that the decrease in productivity in VIII falls upon the first investment of capital, and in IX upon the second investment of capital.

Table. Click to enlarge in new window.

In this table, likewise, the total yield, the money rental, and the rate of rent remain the same as in Tables II, VII and VIII, because the product and the selling price have once more varied in an inverse proportion, while the invested capital has remained the same.

But how do matters stand in the other case, which is possible with a rising price of production, namely in the case that a soil, which so far was too poor to be cultivated, is taken under cultivation?

Let us suppose that such a soil, which we will designate by a, is entering into competition. Then the hitherto rentless soil A would yield a rent, and the foregoing Tables VII, VIII and X would assume the following forms:

Table. Click to enlarge in new window.

Table. Click to enlarge in new window.

Table. Click to enlarge in new window.

By the interpolation of soil a there arises a new differential rent No. I. Upon this new basis differential rent No. II likewise develops in an altered form. The soil a has a different fertility in every one of the above three Tables. The series of successively increasing productivities begins only with soil A. The series of rising rents corresponds to this. The rent of the least rent producing soil forms a constant magnitude, which is simply added to all higher rents; only after the deduction of this constant magnitude does the series of differences clearly appear among the higher rents, and so does its parallelism with the succession of fertilities of the various kinds of soil. In all Tables, the fertilities from A to D have a proportion of 1: 2: 3 : 4, and the rents are correspondingly in VIIa as 1 : 1+7 : 1+2×7 : 1+3×7, in VIIIa as 1 1/5 : 1 1/5 + 7 1/5 :1 1/5 : 2×7 1/5 :1 1/5 + 3×7 1/5, and in Xa as 2/3 : 2/3 + 6 2/3 : 2/3 + 2×6 2/3 : 2/3 + 3×6 2/3. In brief, if the rent of A = n, and the rent of the soil of next higher fertility = n + m, then the series is as n : n +m : n + 2m : n + 3m, etc.‘F. E.]

VI.XLIII.2

[Since the foregoing third case had not been elaborated in the manuscript, only its title being there, the editor had to supplement the work as he did above. It remains now to draw the general conclusions following from the entire foregoing analysis of differential rent in its three principal cases and nine subcases. The illustrations chosen in the manuscript do not suit this purpose very well. In the first place, they compare pieces of land, equal portions of which have yields at the ratio of 1 : 2 : 3 : 4. These are differences, which strongly exaggerate and which lead to utterly forced results in the further development of the assumptions and calculations made upon this basis. In the second place, these proportions create a wrong impression. If degrees of fertility of the proportion 1 : 2 : 3 : 4, etc., produce rents in a series of 0 : 1 : 2 : 3 : 4, etc., one feels tempted to derive the second series from the first and to explain the duplication, triplication, etc., of the rents out of the duplication, triplication, etc., of the total yields. But this would be wholly incorrect. The rents show proportions like that of 0 : 1 : 2 : 3 : 4 even when the degrees of fertility are proportioned as n : n + 1 : n + 2 : n + 3 : n + 4; the rents are not proportioned as the degrees of fertility, they are rather proportioned as the differences of fertility, beginning with the rentless soil as a zero point.

The tables of the original had to be given for the illustration of the text. But in order to obtain a suitable basis for the following

results of our analysis, I present below a new series of tables, in which the yields are indicated in bushels (1/8 quarter or 36.35 liters) and shillings.

The first of these tables, Table XI, corresponds to the former Table I. It shows the yields and rents for five qualities of soil, A to E, with a first investment of a capital of 50 shillings, which makes a profit of 10 shillings, so that the total cost of production per acre is 60 shillings. The yields in grain are placed at low figures, 10, 12, 14, 16, 18 bushels per acre. The resulting regulating price of production is 6 shillings per bushel.

The following 13 tables correspond to the three cases of differential rent No. II, with an additional investment of a capital of 50 shillings per acre upon the same soil, with a constant, falling and rising price of production. Every one of these cases, again, is represented as it turns out, 1) with a constant, 2) with a falling, 3) with a rising productivity of the second investment of capital as compared to the first. This results furthermore in a few other cases, which are presented separately.

In case I, with a constant price of production, we have:

Variant No. 1: The productivity of the second investment of capital remains the same (Table XII.)

Variant No. 2: The productivity declines. This can take place only when soil A receives no second investment of capital, and it may take place in such a way that

a) the soil B likewise produces no rent (Table XIII), or,

b) the soil B does not lose all rent (Table XIV).

Variant No. 3: The productivity increases. (Table XV.) This case likewise excludes a second investment of capital upon soil A.

In case II, with a falling price of production, we have:

Variant No. 1: The productivity of the second investment of capital remains the same (Table XVI).

Variant No. 2: The productivity declines (Table XVII). These two variants are conditioned upon the throwing of soil A out of competition, and soil B producing no rent and regulating the price of production.

Variant No. 3: The productivity increases (Table XVIII). In this case the soil A remains the regulator.

In case III, with a rising price of production, two eventualities are possible; soil A may remain without rent and regulate the price, or, an

inferior class of soil than A enters into competition and regulates the price, in which case A produces a rent.

First eventuality: Soil A remains the regulator.

Variant No. 1: The productivity of the second investment remains the same (Table XIX). This will happen under the conditions assumed by us only when the productivity of the first investment decreases.

Variant No. 2: The productivity of the second investment decreases (Table XX). This does not exclude the possibility that the first investment may retain the same productivity.

Variant No. 3: The productivity of the second investment (Table XIX) increases; this, again, presupposes a falling productivity of the first investment.

Second eventuality: An inferior quality of soil (designated as a) enters into competition; soil A yields a rent.

Variant No. 1: The productivity of the second investment remains the same (Table XXII).

Variant No. 2: The productivity declines (Table XXIII).

Variant No. 3: The productivity increases (Table XXIV).

These three variants appear under the general conditions of the problem and require no further remarks.

We herewith produce the Tables.

Table. Click to enlarge in new window.

When a second investment is placed upon the same soil, we have the following eventualities:

First Case: The Price of production remains unaltered.

Variant No. 1: The productivity of the second investment remains the same.

Table. Click to enlarge in new window.

Variant No. 2: The productivity of the second investment of capital declines; soil A receives no second investment.

a) If soil B ceases to yield a rent.

Table. Click to enlarge in new window.

b) If soil B does not lose all the rent.

Table. Click to enlarge in new window.

Variant No. 3: The productivity of the second investment of capital increases; no second investment upon soil A.

Table. Click to enlarge in new window.

Second case: The price of production declines.

Variant No. 1: The productivity of the second investment of capital remains the same. Soil A is thrown out of competition, soil B loses its rent.

Table. Click to enlarge in new window.

Variant No. 2: The productivity of the second investment of capital declines; soil A is thrown out of competition, soil B loses its rent.

Table. Click to enlarge in new window.

Variant No. 3: The productivity of the second investment of capital increases; soil A remains in the competition. Soil B produces rent.

Table. Click to enlarge in new window.

Third Case: The price of production rises.

A) If soil A remains without rent and continues to regulate the price.

Variant No. 1: The productivity of the second investment of capital remains the same; this implies a decreasing productivity of the first investment of capital.

Table. Click to enlarge in new window.

Variant No. 2: The productivity of the second investment of a capital decreases; this does not exclude a constant productivity of the first investment.

Table. Click to enlarge in new window.

Variant No. 3: The productivity of the second investment of capital rises, which implies, under the assumed conditions, a declining productivity of the first investment.

Table. Click to enlarge in new window.

B) If an inferior soil (designated as a) becomes the regulator of prices and soil A produces a rent. This admits of a constant productivity of the second investment in the case of all variants.

Variant No. 1: The productivity of the second investment of capital remains the same.

Table. Click to enlarge in new window.

Variant No. 2: The productivity of the second investment of capital declines.

Table. Click to enlarge in new window.

Variant No. 3: The productivity of the second investment increases.

Table. Click to enlarge in new window.

These tables lead to the following conclusions:

In the first place they show that the series of rents maintains the same proportions as the series of degrees of fertility, taking the rentless regulating soil as the zero point. Not the absolute yields, but only the differences in yield are the determining elements of rent. Whether the different kinds of soil produce 1, 2, 3, 4, 5 bushels, or whether they produce 11, 12, 13, 14, 15, bushels of yield per acre, the rents are in both cases seriatim 0, 1, 2, 3, 4, bushels, or money to that amount.

But the result of our analysis is far more important with respect to the total yields of rent with a repeated investment of capital upon the same soil.

In five cases out of the analysed thirteen the total amount of the rents is doubled with the duplication of the investment of capital; instead of 10 times 12 shillings it becomes 10 times 24 shillings, or 240 shillings. These cases are:

Case I, constant price, Variant No. 1, the increase of productivity remaining the same (Table XII).

Case II, falling price, Variant No. III: increasing expansion of production (Table XVIII).

Case III, increasing price, first eventuality, where soil A remains the regulator, in all three Variants (Tables XIX, XX, and XXI).

In four cases the rent increases by more than double, namely:

Case I, Variant No. III, constant price, increasing expansion of production (Table XV). The amount of the rent rises to 330 shillings.

Case III, second eventuality, where soil A produces a rent, in all three variants (Table XXII, rent 15 times 30 = 450 shillings; Table XXIII, rent 5 times 20 plus 10 times 28 = 380 shillings; Table XXIV, rent 5 times 15 plus 15 times 33 1/3 = 581¼ shillings).

In one case the rent rises, but not to double the amount of the rent produced by the first investment of capital:

Case I, constant price, Variant II: falling productivity of the second investment, under conditions, in which B does not wholly lose its rent (Table XIV, rent 4 times 6 plus 6 times 21 = 150 shillings).

Finally, it is only in three cases that the total rent, with a second investment upon all kinds of soil, remains at the same level as with the first investment (Table XI); these are the cases, in which the soil A is thrown out of competition and soil B becomes the regulator and pays no rent. In this case the rent B is not only lost, but is also deducted from every succeeding link of the rent series. This is the basis of the above result. We mean the following cases:

Case I, Variant II, when the conditions are such that soil A is eliminated (Table XIII). The sum of the rent is six times twenty, or $10 \times 12 = 120$, as in Table XI.

Case II, Variants I and II. Here soil A is necessarily eliminated, according to the assumption (Tables XVI and XVII) and the sum of the rent is again $6 \times 20 = 10 \times 12 = 120$ shillings.

This is to say: In the great majority of all possible cases the rent rises, both per acre of the rent paying soils and for the total amount, as a result of an increased investment of capital upon the land. Only in three cases out of the thirteen analysed cases the total amount of the rent remains unaltered. These are the cases, in which the lowest quality of soil, which hitherto paid no rent, drops out of competition

and the next higher one takes its place and loses its rent. But even in these cases do the rents upon the superior soils rise in comparison to the rents due to the first investment. When the rent of C falls from 24 to 20, then that of D and E rises from 36 to 48 respectively to 40 and 60 shillings.

A fall of the total rents below the level of the first investment of capital (Table XI) would be possible only in the case that soil B as well as soil A would drop out of competition and soil C become regulating and rentless.

The more capital is applied to a certain soil, and the higher the development of agriculture and of civilization in general is in a certain country, the more do the rents rise per acre and per total amount of rental, and the more immense becomes the tribute paid by society to the great land owners in the form of surplus profits‘so long as the different soils taken under cultivation remain capable of competition.

This law explains the wonderful vitality of the class of great landlords. No social class lives so sumptuously, no other claims like it a right to a traditional luxury in keeping with its "estate," regardless of where the money for that purpose may come from, no other class piles debt upon debt as lightheartedly as it. And yet it always lands on its feet‘thanks to the capital invested by other people in the soil,

whereby the landlord collects a rent, which stand in no proportion to the profits to be drawn out of the soil by the capitalist.

However, the same law also explains, why the vitality of the great landlord is gradually exhausted.

When the English corn taxes were abolished in 1846, the English manufacturers believed that they had transformed the landowning aristocracy into paupers. Instead of that they became richer than ever. How did that happen? Very simple. In the first place, the renting capitalists were now compelled by contract to invest 12 pounds sterling annually instead of 8 pounds, as heretofore. And in the second place, the landlords, being strongly represented also in the Lower House, granted to themselves a heavy subsidy for the drainage and other permanent improvements of their lands. Since no total displacement of the worst soil took place, but at the worst a temporary employment of such soil for other purposes, the rents rose in proportion to the increased investment of capital, and the landed aristocracy were better off than ever before.

But everything is perishable. The transoceanic steamboats and the railroads of North and South America and India enabled very peculiar masses of land to enter into competition upon the European grain markets. There were on the one hand the North American prairies, the Argentine pampas, steppes, made fertile for the plow by nature

itself, virgin soil, which offered rich harvest for years to come even with a primitive cultivation and without any fertilization. Then there were the lands of the Russian and Indian communes, that had to sell a portion of their product, and an increasing one at that, for the purpose of obtaining money for the taxes wrung from them by the pitiless despotism of the state, very often by means of torture. These products were sold without regard to their cost of production, sold at the price offered by the dealer, because the peasant had to have money under all circumstances when tax paying day came around. And against the competition of the virgin prairie soils and of the Russian and Indian peasants ground down by taxation, the European capitalist farmer and peasant could not stand up at the old rents. A portion of the soil of Europe fell definitely out of the competition for the raising of grain, the rents fell everywhere. Our second case Variant II (falling prices and falling productivity of the additional investment of capital) became the rule for Europe. This accounts for the woes of the landlords from Scotland to Italy, and from Southern France to Eastern Prussia. Fortunately all prairie lands have not been taken under cultivation. There are enough of them left to ruin all the great landlords of Europe and the small ones into the bargain.‘F. E.]

VI.XLIII.3

The heads, under which rent is to be analyzed, are the following:

A. Differential rent.

1) Meaning of differential rent. Illustration by water power. Transition to real agricultural rent.

2) Differential rent No. I, arising from different fertilities of different pieces of land.

3) Differential rent No. II, arising from successive investments of capital upon the same soil. Differential rent No. II is to be analysed

a) with a stationary price of production.
b) with a falling price of production.
c) with a rising price of production.

And furthermore

d) the transformation of surplus profit into rent.

4) Influence of this rent upon the rate of profit.

B. Absolute rent.
C. The price of land.
D. Final Remarks concerning ground rent.

VI.XLIII.4

As the general result of our analysis of differential rent we come to the following conclusions:

VI.XLIII.5

1) The formation of surplus profits may take place in different ways. On the one hand it may come about by the help of differential rent No. I, that is, by an investment of the entire agricultural capital upon one soil area consisting of soils of different fertilities. Or, it may come about by means of differential rent No. II, that is by means of the varying differential productivity of successive investments of capital upon the same soil, which signifies here a greater productivity, say in wheat measured by quarters, than is secured with the same investment of capital upon the worst rentless soil, which regulates the price of production. But no matter how these surplus profits may arise, their transformation into rents, their transfer from the capitalist farmer to the landlord, always presupposes that the various individual prices of production represented by the partial products of the individual capitals invested in succession (independently of the general price of production by which the market is regulated) have previously been reduced to an individual average price of production. The excess of the general regulating price of production of the product of one acre over its individual average price, forms and measures the rent

per acre. In differential rent No. I the differential results may be distinguished by themselves, because they take place upon differentiated portions of land lying side by side, with an investment of capital and a degree of cultivation considered normal per acre. In differential rent No. II they must first be made distinguishable; they must in fact be reconverted into differential rent No. I, and this cannot take place in any other but the indicated way. Take for instance Table III, Chapter XLI, 3.
VI.XLIII.6

Soil B gives for the first investment of capital 2½ pounds sterling 2 quarters per acre, and for the second equally large one 1½ quarters; together 3½ quarters upon the same acre. These 3½ quarters do not show what part of them is a product of the investment of capital No. I and what part a product of capital No. II, for they are all grown upon the same soil. They are in fact the product of the total capital of 5 pounds sterling; and the actual condition of the matter is that a capital of 2½ pounds sterling produced 2 quarters, and a capital of 5 pounds sterling produced only 3½ quarters, not 4 quarters. The case would be just the same, if these 5 pounds sterling were producing 4 quarters, so that the proceeds of both investments of capital would be the same, or even 5 quarters, so that the second investment of capital would yield a surplus of 1 quarter. The price of production of the first 2 quarters is 1½ pounds sterling per quarter, and that of the second 1½ quarters is 2 pounds sterling per quarter. Consequently

the 3½ quarters together cost 6 pounds sterling. This is the individual price of production of the total product, and it makes an average of 1 pound and 14 2/7 shillings per quarter, in round figures 1¾ pounds sterling. With the average price of production regulated by soil A, namely 3 pounds sterling, this makes a surplus profit of 1¼ pounds sterling per quarter, and for the total 3½ quarters profit of 4 3/8 pounds sterling. With the average price of production of B this is represented by about 1½ quarters. In other words, the surplus profit of B is represented by an aliquot portion of the product of B, by these 1½ quarters, which express the rent in terms of grain, and which under the prevailing price of production sell at 4½ pounds sterling. But on the other hand, the surplus product of one acre of B compared to that of A is not without ceremony a formation of surplus profit, is not offhand a surplus product. According to our assumption one acre of B produces 3½ quarters, whereas one acre of A produces only 1 quarter. The surplus of the product of B is, therefore, 2½ quarters, but the surplus product is only 1½ quarters; for the capital invested in B is twice that of A, and for this reason its cost of production is doubled. If soil A should also receive an investment of 5 pounds sterling, and the rate of productivity should remain the same, then the product would amount to 2 quarters instead of 1 quarter, and it would then be seen that the actual surplus product is found, not by a comparison of 3½ with 1, but of 3½ with 2, so that it would be only 1½ quarter, not 2½ quarters. Furthermore, if B should invest a third capital of 2½ pounds sterling, which would produce only

1 quarter, so that this quarter would cost 3 pounds sterling, the same as that of A, then its selling price would cover only the cost of production, would yield only the average profit, but not a surplus profit, and would not offer anything that could be converted into rent. The product per acre of any kind of soil, compared with the product per acre of soil A, shows neither whether it is a product of the same or of a larger investment of capital, nor whether the additional product covers merely the price of production, nor whether it is due to a greater productivity of the additional capital.
VI.XLIII.7

2) With a decreasing rate of productivity of the additional investments of capital, whose limits, so far as the new formation of surplus profit is concerned, is that investment of capital which just covers the cost of production, in other words, which produces one quarter at the same expense as the same investment of capital in one acre of soil A, amounting to 3 pounds sterling according to our assumption, we come to the following conclusions on the basis of what has gone before: That the limit, where the total investment of capital in one acre of B would not yield any more rent, is reached when the individual average price of production of the product per acre of B would rise to the price of production per acre of A.
VI.XLIII.8

If B invests only such additional capital as pays just the price of production, but forms no surplus profit, no rent, then this raises only the individual average price of production per quarter, but does not affect the surplus profit, or eventually the rent, formed by previous investments of capital? For the average price of production always remains under that of A, and when the excess over the price per quarter decreases, then the number of quarters increases in the same ratio, so that the total excess over the price remains unaltered. VI.XLIII.9

In the case assumed, the first two investments of capital of 5 pounds sterling produce 3½ quarters upon B, which amounts to 1½ quarters of rent, at 4½ pounds sterling, according to our assumption. Now, if a third investment of capital of 2½ pounds sterling is added, which produces only one additional quarter, then the total price of production (including a profit of 20%) of the 4½ quarters is 9 pounds sterling, so that the average price per quarter is 2 pounds sterling. The average price of production per quarter upon B has then risen from 1 5/7 pounds sterling to 2 pounds sterling, so that the surplus profit per quarter, compared with the regulating price of A, has fallen from 1 2/7 pounds sterling to 1 pound sterling. But 1 × 4½ = 4½ pounds sterling, just as formerly 1 2/7 × 3½ = 4½ pounds sterling. VI.XLIII.10

upon B, and that these investments produce one quarter only at its average price of production, then the total product per acre would by 6½ quarters, and their cost of production 15 pounds sterling. The average price of production per quarter of B would have risen once more, from 1 pound sterling to 2 4/13 pound sterling, and the surplus profit per quarter, compared with the regulating price of production of A, would have dropped once more, from 1 pound sterling to 9/13 pound sterling. But these 9/13 would now have to be calculated upon 6½ quarters instead of 4½ quarters. And 9/13 × 6½ = 1 × 4½ = 4½ pounds sterling.
VI.XLIII.11

The inference from this is, in the first place, that no raising of the regulating price of production is necessary under these circumstances, in order to make possible additional investments of capital even to the point where the additional capital ceases wholly to produce any surplus profit and yields only the average profit. It follows furthermore that the sum of the surplus profit per acre remains the same here, no matter how much the surplus profit per quarter may decrease; this decrease is always balanced by a corresponding increase of the quarters produced per acre. In order that the average price of production may rise to the general price of production (in this case to 3 pounds sterling for soil B) it is necessary that additions should be made to the capital, which must have a product of a higher price of production than the regulating one of 3 pounds sterling. But we shall

see that this does not suffice without further ado in order to raise the average price of production per quarter of B to the general price of production of 3 pounds sterling.
VI.XLIII.12

Let us assume that soil B produced.
VI.XLIII.13

1) 3½ quarters as before at a price of production of 6 pounds sterling; this with two investments of capital of 2½ pounds sterling each, which both form surplus profits, but of a decreasing amount.
VI.XLIII.14

2) 1 quarter at 3 pounds sterling; an investment of capital, in which the individual price of production shall be equal to the regulating price of production.
VI.XLIII.15

3) 1 quarter at 4 pounds sterling; an investment of capital, in which the individual price of production shall be higher by 25% than the regulating price.
VI.XLIII.16

We should then have 5½ quarters per acre, at 13 pounds sterling, with an investment of a capital of 10 pounds sterling; this would be

four times the original investment of capital, but not quite three times the product of the first investment of capital.
VI.XLIII.17

5½ quarters per acre at 13 pounds sterling make an average price of production of 2 4/11 pounds sterling, which would give a surplus of 7/11 pound per quarter at the regulating price of production of 3 pounds sterling . This surplus may be converted into rent. 5½ quarters sold at the regulating price of production of 3 pounds sterling make 16½ pounds sterling. After deducting the cost of production of 13 pounds sterling a surplus, or rent of 3½ pounds sterling remains, which, calculated at the present average price of production per quarter of B, that is, at 2 4/11 pounds per quarter, represent 1 5/72 quarters. The money rent would have fallen by 1 pound sterling, the grain rent by about ½ quarter, but in spite of the fact that the fourth additional investment upon B does not produce a surplus profit, but even less than the average profit, a surplus profit and a rent still continue to exist. Let us assume that not only the investment of capital as illustrated in No. 3), but also that in No. 2), produce at a cost exceeding the regulating price of production, then the total production is 3½ quarters at 6 pounds sterling plus 2 quarters at 8 pounds sterling, total 5½ quarters at 14 pounds sterling cost of production. The average price of production per quarter would be 2 6/11 pounds sterling, and it would leave a surplus of 5/11 pound sterling. The 5½ quarters, sold at 3 pounds sterling, make 16½

pounds sterling; subtract the 14 pounds sterling of cost of production, and 2½ pounds sterling remain for rent. At the present average price of production upon B this would be equivalent to 55/56 quarters. In other words, a rent would still remain, although less than before.
VI.XLIII.18

This shows at any rate, that upon the better soils with additional investments of capital, whose product costs more than the regulating price of production, the rent does not disappear, at least not within the bounds of admissible practice, although it must decrease, and will do so in proportion, on the one hand, to the aliquot part formed by this unproductive capital in the total investment of capital, on the other hand in proportion to the decrease of its fertility. The average price of its fertility would still stand below the regulating price and would still leave a surplus profit that could be converted into rent.
VI.XLIII.19

Let us now assume that the average price per quarter of B coincides with the general price of production, in consequence of four successive investments of capital (2½, 2½, 5 and 5 pounds sterling) with a decreasing productivity.

Table. Click to enlarge in new window.
VI.XLIII.20

The capitalist renter in this case sells every quarter at its individual price of production, and consequently the total number of quarters at their average price of production per quarter, which coincides with the regulating price of 3 pounds sterling. Hence he still makes a profit of 20%, or 3 pounds sterling, upon his capital of 15 pounds sterling. But the rent is gone. What has become of the surplus in this compensation of individual prices of production per quarter with the general price of production?
VI.XLIII.21

The surplus profit on the first 2½ pounds sterling was 3 pounds sterling; on the second 2½ pounds sterling it was1½ pounds sterling; total surplus profit on one-third of the invested capital, that is, on 5 pounds sterling, 4½ pounds sterling, or 90%.
VI.XLIII.22

In the case of investment No. 3) the 5 pounds sterling do not only yield no surplus profit, but its product of 1½ quarters, if sold at the general price of production, gives a minus of 1½ pounds sterling. Finally, in the case of investment No. 4), which amounts likewise to 5 pounds sterling, its product of 1 quarter, if sold at the general price of production, gives a minus of 3 pounds sterling. Both investments of capital together give a minus of 4½ pounds sterling, equal to the surplus profit of 4½ pounds sterling, which was realized on investments Nos. 1) and 2).

VI.XLIII.23

The surplus profits and deficits balance one another. Therefore the rent disappears. In fact this is possible only because the elements of surplus-value, which form a surplus profit, or rent, now pass into the formation of the average profit. The capitalist renter makes this average profit of 3 pounds sterling on 15 pounds sterling, or of 20%, at the expense of the rent.

VI.XLIII.24

The compensation of the individual average price of production of B to the general price of production A, which regulates the market, presupposes that the difference, by which the individual price of the product of the first investment of capital stands below the regulating price, is more and more compensated and finally balanced by the difference, by which the product of the subsequent investments of capital stands above the regulating price. What appears as a surplus profit, so long as the product of the first investment of capitals sold by itself, becomes by degrees a part of their average price of production, and thereby enters into the formation of the average profit, until it is finally absorbed in this way.

VI.XLIII.25

If only 5 pounds sterling are invested in B, instead of 15 pounds sterling, and if the additional 2½ quarters of the last Table are

produced by taking 2½ new acres of A under cultivation with an investment of 2½ pounds sterling per acre, then the invested additional capital would amount only to 6¼ pounds sterling, so that the total investment on A and B for the production of these 6 quarters would be only 11¼ pounds sterling instead of 15 pounds sterling, and the total cost of production of these including the profit of 13½ pounds sterling. The 6 quarters would still be sold at 18 pounds sterling, but the investment of capital would have decreased by 3¾ pounds sterling, and the rent upon B would be 4½ pounds sterling per acre, as before. It would be different, if the production of additional 2½ quarters would require that inferior soil than A, for instance A‘1, A‘2, should be taken under cultivation; so that the price of production per quarter, for 1½ quarters on soil A‘1 would be 4 pounds sterling, and for the last quarter on soil A‘2 would be 6 pounds sterling. In this case these 6 pounds sterling would be the regulating price of production per quarter. The 3½ quarters of B would then be sold at 21 pounds sterling instead of 10½ pounds sterling, and this would leave a rent of 15 pounds sterling instead of 4½ pounds sterling, or in grain a rent of 2½ quarters instead of 1½ quarter. In the same way the one quarter on A would now leave a rent of 3 pounds sterling, or of ½ quarter.
VI.XLIII.26

Before we discuss this point any further, we will pause to make the following observation.

VI.XLIII.27

The average price of one quarter of B is compensated and coincides with the general price of production of 3 pounds sterling per quarter, regulated by A, as soon as that portion of the total capital, which produces the excess of 1½ quarter, is balanced by that portion of the total capital, which produces a deficit of 1½ quarter. How soon this compensation is effected, or how much capital with less than average productivity must be invested in B for that purpose, will depend, assuming the surplus productivity of the first investments of capital to be given, upon the relative underproductivity of the later invested capitals, compared with an investment of the same amount upon the worst regulating soil A, or upon the individual price of production of their product, compared with the regulating price.

VI.XLIII.28

We now come to the following conclusions from the foregoing:
VI.XLIII.29

1) So long as the additional capitals are invested in the same soil with a surplus productivity, even a decreasing one, the absolute rent in grain and money increases per acre, although it decreases relatively, in proportion to the advanced capital (in other words, the rate of surplus profit, or rent). The limit is here formed by that

additional capital, which yields only the average profit, or the price of production of whose product coincides with the general price of production. The price of production remains the same under these circumstances, unless the production upon the lesser soils becomes superfluous through an increased supply. Even with a falling price may these additional capitals still produce a surplus profit, though a smaller one, within certain limits.
VI.XLIII.30

2) The investment of additional capital, which produces only the average profit, whose surplus productivity is therefore zero, does not alter anything in the level of the existing surplus profit, and consequently of the rent. The individual average price per quarter increases thereby upon the superior soils; the surplus per quarter decreases, but the number of quarters, which carry this decreased surplus, increases, so that the product remains the same.
VI.XLIII.31

3) Additional investments of capital, whose product has an individual price of production exceeding the regulating price, whose surplus productivity is therefore not merely zero, but less than zero, that is, a minus lower than the productivity of the same investment of capital upon the regulating soil A, bring the individual average price of production of the total product of the superior soil closer to the general price of production, reduce more and more the difference

between both, which forms the surplus profit, or rent. More and more of that which forms a surplus profit, or rent, passes over into the formation of the average profit. But nevertheless the total capital invested in one acre of B continues to yield a surplus profit, although a decreasing one in proportion as the capital with undernormal productivity and the degree of its underproductivity increase. The rent, with an increasing capital and increasing production, decreases in this case absolutely per acre, not merely relatively as compared to the increasing size of the invested capital, as in the second case.
VI.XLIII.32

The rent cannot disappear, unless the individual average price of production of the total product of the better soil B coincides with the regulating price, so that the entire surplus profit of the first more productive investment of capital is consumed in the formation of the average profit.
VI.XLIII.33

The minimum limit of the fall for the rent per acre is the point at which it disappears. But this point does not assert itself, as soon as the additional investments of capital work with an underproductivity, but rather as soon as the additional investment of the underproductive capitals becomes so great that their effect paralyzes the overproductivity of the first investments of capital, so that the productivity of the total capital becomes the same as that of A, and

the individual average price of the quarter of B the same as that of the quarter of A.
VI.XLIII.34

In this case, likewise, the regulating price of production, 3 pounds sterling per quarter, remains the same, although the rent would have disappeared. Only after this point would have been passed, would the price of production have to rise in consequence of an increase of either the degree of underproductivity of the additional capital or of the magnitude of the additional capital of the same underproductivity. For instance, if in the above Table 2½ quarters were produced instead of 1½ quarters, at 4 pounds sterling per quarter, upon the same soil, then we should have altogether 7 quarters at 22 pounds sterling cost of production; the quarter would cost 3 1/7 above the general price of production which would have to rise.
VI.XLIII.35

For a long time, then, additional capital with underproductivity, or even increasing underproductivity, might be invested, until the individual average price per quarter of the best soils would become equal to the general price of production, until the excess of the latter over the former, and with it the surplus profit and the rent, would entirely disappear.
VI.XLIII.36

And even in this case the disappearance of the rent from the better kinds of soil would only signify that the individual average price of their products would coincide with the general price of production, so that this last price would not have to rise.
VI.XLIII.37

In the above illustration, upon soil B, which is there the lowest of the better rent paying soils, 3½ quarters were produced by a capital of 5 pounds sterling with a surplus productivity, and 2½ quarters by a capital of 10 pounds sterling with underproductivity, together 6 quarters, of which 5/12 are produced by the capitals with underproductivity. And only at this point does the individual average price of production of the 6 quarters rise to 3 pounds sterling and coincide with the general price of production.
VI.XLIII.38

Under the law of landed property, however, the last 2½ quarters could not have been produced in this way at 3 pounds sterling per quarter, with the exception of the case, in which they may be produced upon 2½ new acres of the soil A. The case, in which the additional capital produces only at the general price of production, would have been the limit. Beyond it the additional investment of capital would have to cease upon the same soil.
VI.XLIII.39

If the capitalist renter once pays 4½ pounds sterling of rent for the first two investments of capital, he must continue to pay them, and every investment of capital, which produces one quarter below 3 pounds sterling, would cause him a deduction from his profit. The compensation of the individual price of production, in the case of underproductivity, is thereby prevented.
VI.XLIII.40

Let us take this case in the previous illustration, in which the price of production of the soil A, at 3 pounds sterling per quarter, regulates the price for B.

Table. Click to enlarge in new window.
VI.XLIII.41

The cost of production of the 3½ quarters in the first two investments is likewise 3 pounds sterling per quarter for the capitalist renter, since he has to pay a rent of 4½ pounds sterling, the difference between his individual price of production and the general price of production not flowing into his pocket. In his case, then, the excess of the price of the first two investments of capital cannot serve for the compensation of the deficit incurred in the production of the third and fourth investment of capital.
VI.XLIII.42

The 1½ quarters in investment No. 3) cost the capitalist renter, with profit included, 6 pounds sterling; but at the regulating price of 3 pounds sterling per quarter he can sell them only for 4½ pounds sterling. In other words, he would not only lose his whole profit, but also ½ pound sterling, or 10% of his invested capital of 5 pounds sterling. The loss of profit and capital in the case of investment No. 3) would amount to 1½ pound sterling, and in the case of investment No. 4) 3 pounds sterling, together 4½ pounds sterling, just as much as the rent of the better investments amounts to, whose individual price of production cannot take part in the compensation of the individual average price of production of the total product of B, because its surplus is paid as a rent to some third person.
VI.XLIII.43

If the demand should require that the additional 1½ quarters must be produced by a third investment of capital, then the regulating market price would have to rise to 4 pounds sterling per quarter. In consequence of this rise in the regulating market price the rent upon B would rise for the first and second investment, and a rent would be formed upon A.
VI.XLIII.44

Although the differential rent is but a formal transformation of surplus profit into rent, since property in land enables the owner in this case to draw the surplus profit of the capitalist render into his own hands,

we find nevertheless that the successive investment of capital upon the same land, or, what amounts to the same, the increase of the capital invested in the same land, reaches its limit far more rapidly when the rate of productivity of the capital decreases and the regulating price remains the same, so that in fact a more or less artificial barrier is erected as a consequence of the mere formal transformation of surplus profit into ground rent,‘which is the result of private property in land. The rise of the general price of production, which becomes necessary when the limit is narrowed beyond the ordinary, is in this case not merely the cause of a rise of the differential rent, but the existence of differential rent as rent is at the same time a reason for the earlier and more rapid rise of the general price of production, in order to insure by this means the supply of the needed larger product.
VI.XLIII.45

Furthermore we must make a note of the following facts:
VI.XLIII.46

By an addition of capital to soil B the regulating price could not, as above, rise to 4 pounds sterling, if soil A should supply the additional product below 4 pounds sterling by a second investment of capital, or if new and worse soil than A should come into competition, whose price of production would be higher than 3 but lower than 4 pounds sterling. We see, then, that differential rent No. I and differential rent

No. II, while the first is the basis of the second, are at the same time mutual limits for one another, by which now a successive investment of capital upon the same soil, now an investment of capital side by side upon new soil, is brought about. In like manner they act as mutual boundaries in other cases, for instance, when better land is taken up.

Part VI,

Volume III Chapter XLIV. DIFFERENTIAL RENT EVEN UPON THE WORST SOIL UNDER CULTIVATION.

VI.XLIV.1

LET us assume that the demand for grain is rising, and that the supply cannot be made to cover the demand, unless successive investments of capital with deficient productivity are made upon the rent-paying soils, or by an additional investment of capital, likewise with a decreasing productivity, upon soil A, or by the investment of capital in new lands of a lesser quality than A.

VI.XLIV.2

Let us take soil B as a representative of the rent paying soils.

VI.XLIV.3

The additional investment of capital demands a rising of the market price above the prevailing price of production of 3 pounds sterling per quarter, in order that the increased production of one quarter (which may here stand for one million quarters, as may every acre for one million acres) upon B may be possible. An increased production may also take place upon soils C and D, etc., the soils paying the highest rent, but only with a decreasing power to produce a surplus; but it is assumed that the one quarter upon B must necessarily be produced in order to cover the demand. If this one quarter is more easily produced by investing more capital in B than with the same addition of capital to A, or by descending to soil A‘1, which may, perhaps, produce one quarter only for 4 pounds sterling, whereas the additional capital upon A might do so at 3¾ pounds sterling per quarter, then the additional capital upon B will regulate the market price.
VI.XLIV.4

Let us also assume that A produces one quarter at 3 pounds sterling, as it did heretofore. Let B likewise, as before, produce altogether 3½ quarters at an individual price of production of 6 pounds sterling for its total output. Now, if an addition of 4 pounds sterling becomes necessary upon B (including the profit) in order to produce an additional quarter, whereas it might be produced upon A at 3¾ pounds sterling, then it would naturally be produced upon A, not upon B. Let us assume, then, that this additional quarter can be produced upon B with an additional cost of production of 3½ pounds sterling.

In this case 3½ pounds sterling would become the regulating price for the entire production. B would now sell its product of 4½ quarters at 15¾ pounds sterling. The cost of production of the first 3½ quarters, or 6 pounds sterling, would have to be deducted from this, also that of the last quarter, or 3½ pounds sterling, total 9½ pounds sterling. This leaves a surplus profit for rent of 6¼ pounds sterling, as against the former 4½ pounds sterling. In this case one acre of A would also yield a rent of ½ pound sterling; but not the worst soil A, but the better soil B would regulate the price of production with 3½ pounds sterling. Of course we assume here that new soil of the quality of A is not accessible in the same favorable location as that hitherto cultivated, but that either a second investment of capital upon the already cultivated soil A is required at a higher cost of production, or the cultivation of still inferior soil, such as A‘1. As soon as differential rent No. II comes into action by successive investments of capital, the limits of the rising price of production may be regulated by better soil, and the worst soil, the basis of differential rent No. I, may also carry a rent. Under these circumstances all cultivated lands would pay a rent under a mere differential rent system. We should then have the following two Tables, in which we mean by the term cost of production the sum of the invested capital plus 20% profit, in other words, on every 2½ pounds sterling of capital ½ pound sterling of profit, total 3 pounds sterling.

Table. Click to enlarge in new window.

VI.XLIV.5

This is the condition of affairs, before the new capital of 3½ pounds sterling is invested in B, which supplies only one quarter. After this investment has been made, we have the following condition:,

Table. Click to enlarge in new window.
VI.XLIV.6

[This, again, is not quite correctly calculate. The capitalist renter of B has to meet a cost of production of 9½ pounds sterling for the 4½ quarters and besides 4½ pounds sterling in rent, a total of 14 pounds sterling; average per quarter 3½ pounds sterling. This average price of his total production thus becomes the regulating market price. According to this the rent upon A would amount to 1/9 pound sterling instead of ½ pound sterling and that upon B would remain 4½ pounds sterling, as heretofore. 4½ quarters at 3½ pounds sterling make 14 pounds sterling, and if we deduct 9½ pounds sterling of cost of production we have 4½ pounds sterling left for surplus profit. We see, then, that in spite of the required change in figures this illustration shows the way in which the better rent paying soil, by means of differential rent No. II, may regulate the price and thus transform all soil, even a hitherto rentless one, into rent paying soil.‘F. E.]

VI.XLIV.7

The grain rent must rise, as soon as the regulating price of production of the grain rises, that is, as soon as the quarter of grain rises upon the regulating soil, or the regulating investment of capital upon one of the various kinds of soil. It is the same as though all kinds of soil had become less productive, and as though they were producing only 5-7 quarter instead of one quarter with a new investment of 2½ pounds sterling. Whatever they produce more in grain with the same investment of capital, is converted into a surplus product, in which the surplus profit and with it the rent are incorporated. Assuming that the rate of profit remains the same, the capitalist renter will have to buy less grain with his profit. The rate of profit may remain the same, if the wages do not rise, either because they are depressed to the physical minimum, below the normal value of labor-power, or because the other things needed for consumption by the laborer and supplied by the manufacturer have become relatively cheaper; or because the working day has been prolonged or has become more intensive, so that the rate of profit in other than agricultural lines of production, which, however, regulates the agricultural profit, has remained the same or has risen; or, finally, because there may be more constant and less variable capital employed in agriculture, even though the total capital invested be the same.

VI.XLIV.8

Now we have considered the first condition in which rent may arise upon the worst soil A without taking still worse soil under cultivation; that is, in which rent may arise out of the difference between the old individual price of this land, which was hitherto the regulating price of production, and the new, higher, price of production, at which the last additional capital with less than normal productive power upon the better soil supplies the necessary additional product.
VI.XLIV.9

If the additional product had to be supplied by soil A‘1, which cannot produce one quarter at less than 4 pounds sterling, then the rent would have risen to one pound sterling upon A. But in this case the soil A‘1 would have taken the place of A as the worst cultivated soil, and A would have risen in the scale to the place of the lowest link in the series of rent paying soils. Differential rent No. I would have changed. This case, then, is outside of the consideration of differential rent II, which arises out of the different productivity of successive investments of capital upon the same piece of land.
VI.XLIV.10

But aside from this, differential rent may arise upon soil A in two other ways.
VI.XLIV.11

In the first place, it may arise so long as the price remains unchanged (any price, even a lower one compared to former ones), if the additional investment of capital creates a surplus product, which it must always do, on first sight, and up to a certain point, upon the worst soil.
VI.XLIV.12

In the second place, it may arise, if the productivity of the successive investments of capital upon soil A decreases.
VI.XLIV.13

The assumption in either case is that the increased production is required on account of the condition of the demand.
VI.XLIV.14

But from the point of view of differential rent, a peculiar difficulty arises here on account of the previously developed law, according to which it is always the individual average price of production per quarter in the total production (or the total investment of capital) which acts as the determining factor. In the case of soil A, however, it is not, as it is in the case of the better soils, a question of a price of production existing outside of it, which limits the equalization of the individual price of production and the general price of production, for new investments of capital. For the individual price of production of A

is precisely the general price of production regulating the market price.
VI.XLIV.15

Let us assume:
VI.XLIV.16

1) When productive power of successive investments of capital is increasing, that one acre of A will produce 3 quarters instead of 2 quarters with an investment of 5 pounds sterling of capital, corresponding to 6 pounds sterling of cost of production. The first investment of 2½ pounds sterling supplies one quarter, the second 2 quarters. In this case 6 pounds sterling of cost of production will correspond to a product of 3 quarters, so that the average price of one quarter will be 2 pounds sterling. If the 3 quarters are sold at 2 pounds sterling per quarter, then A does not produce any rent any more than it did before. Only the basis of differential rent No. II has been altered. The regulating price of production is now 2 pounds sterling instead of 3 pounds. A capital of 2½ pounds sterling produces now an average of 1½ quarters upon the worst soil instead of 1 quarter, and this is now the official productivity for all better soils with an investment of 2½ pounds sterling. A portion of the ordinary surplus product now passes over into the formation of their necessary product, just as a portion of their surplus profit now passes over into the formation of the average profit.

But if the calculation is made as it is upon the better soils, where the average calculation does not alter anything in the absolute surplus, because the general price of production is the limit of the investment of capital, then one quarter of the first investment of capital costs 3 pounds sterling and the 2 quarters of the second investment costs only 1½ pounds sterling. This would give rise to a grain rent of one quarter and a money rent of 3 pounds sterling upon A, but the 3 quarters would be sold at the old price of 9 pounds sterling all together. If a third investment of 2½ pounds sterling of capital were made at the same productivity as the second investment, then the total production would be 5 quarters at 9 pounds sterling of cost of production. If the individual average price of A should remain the regulating price, then one quarter would be sold at 1 4/5 pound sterling. The average price would have fallen once more, not through a new rise of the productivity of the third investment of capital, but merely through the addition of a new investment of capital with the same additional productivity as the second one. Instead of raising the rent upon the rent paying soils, the successive investments of capital of a higher, but sustained, fertility upon the soil A would lower the price of production and with it the differential rent upon all other soils in the same proportion, under conditions remaining the same. On the other hand, if the first investment of capital, which produces one quarter at 3 pounds sterling, should remain in force by itself, then 5

quarters would be sold at 15 pounds sterling, and the differential rent of the later investments of capital upon soil A would amount to 6 pounds sterling. The additional capital per acre of soil A, whatever might be the manner of its application, would be an improvement in this case, and it would make the original portion of capital more productive. It would be nonsense to say that 1/3 of the capital had produced one quarter and the other 2/3 four quarters. For 9 pounds sterling per acre would always produce 5 quarters, while 3 pounds sterling would produce only one quarter. Whether a rent would arise here or not, whether a surplus profit would be made or not, would depend wholly upon circumstances. Normally the regulating price of production would fall. This would be the case, if this improved, but more expensive cultivation of soil A should take place only for the reason that it takes place upon all better soils, in other words, if a general revolution in agriculture should occur. And the assumption in that case would be that this soil is worked with 6 or 9 pounds sterling instead of 3 pounds. This would apply particularly, if the greater part of the cultivated acres of soil A, by which the bulk of the supply of this country is furnished, should be handled by this new method. But if the improvement should extend only to a small portion of the area of A, then this better cultivated portion would yield a surplus profit, which the landlord would be quick to transform wholly or in part into rent and fix permanently in the form of rent. In this way a rent might be gradually formed upon all soil of the A quality, in proportion as more and more of the area of this soil is taken

under cultivation by the new method, and the surplus productivity might be confiscated wholly or in part, according to market conditions. The equalization of the price of production of soil A to the average price of its product at an increased investment might thus be prevented by the fixation of the surplus profit of this increased investment of capital in the form of rent. If so, this would be once again an illustration of the way in which the transformation of surplus profit into ground-rent, in other words, the intervention of property in land, raises the price of production, as we have already noticed in the case of the better soils upon which the productivity of the additional capitals decreased, so that here the differential rent would not be a mere result of the difference between the individual and the general price of production. It would prevent, in the case of soil A, the identification of both prices in one, because it would interfere with the regulation of the price of production by the individual price of production of A. It would maintain a higher price of production than the necessary one and thus create a rent. Even if grain were freely imported from abroad, the same result could be brought about or perpetuated by compelling the tenants to use soil capable of competing in the raising of grain at the price of production regulated from abroad for other purposes, for instance for pastures, so that only rent paying soils could raise grain, that is, only soils whose individual average price of production per quarter would be below the price of production determined from abroad. On the whole it may be assumed that the price of production will fall, but not to the level of its

average. Rather will it be higher than the average, but below the price of production of the worst cultivated soil A, so that the competition of new lands of the class A is held back.
VI.XLIV.18

2) When the productive power of the additional capitals is decreasing, let us assume that soil A‘1 can produce the additional quarter only at 4 pounds sterling, whereas soil A produces it at 3¾ pounds sterling, that is, more cheaply than the lesser soil, but still more dearly than the quarter produced by the first investment of capital upon it. In this case the total price of the two quarters produced upon A would be 6¾ pounds sterling, and the average price per quarter 3 3/8 pounds sterling. The price of production would rise, but only by 3/8 pounds sterling, whereas it would rise by another 3/8, or to 3¾ pounds sterling, if the additional capital were invested upon new soil, which could produce at 3¾ pounds sterling and thus bring about a proportional raise of all other differential rents.
VI.XLIV.19

The price of production of 3 3/8 pounds sterling per quarter of A would thus be brought to the figure of its average price of production with an increased investment of capital, and would be the regulating price; it would not yield any rent, because it would not produce any surplus profit.
VI.XLIV.20

However, if this quarter, produced by the second investment of capital, were sold at 3¾ pounds sterling, then the soil A would yield a rent of ¾ pound sterling, and it would do so upon all acres of A, even those with no additional investment of capital, which would still produce one quarter at 3 pounds sterling. So long as any uncultivated fields of A remain, the price could rise only temporarily to 3¾ pounds sterling. The competition of new fields of A would hold the price of production at 3 pounds sterling, until all lands of the A class would be exhausted, whole favorable location would enable them to produce a quarter at less than 3¾ pounds sterling. This would be a likely assumption, although the landlord will not let any tenant have any land free of rent, if one acre of A pays rent.
VI.XLIV.21

It would depend once more upon the greater or smaller generalization of the second investment of capital in the available soil A, whether the price of production shall be brought down to an average or whether the individual price of production of the second investment of capital shall be regulating at 3¾ pounds sterling. This last case will take place only when the landlord gets time to fix the surplus profit, which would be made until the demand would be satisfied at the price of 3¾ pounds sterling, permanently in the form of rent.

VI.XLIV.22

Concerning the decreasing productivity of the soil with successive investments of capital, see Liebig. We have seen that the successive decrease of the surplus productive power of the investments of capital always increases the rent per acre, so long as the price of production remains the same, and this may take place even when the price of production is falling.
VI.XLIV.23

But in a general way the following remarks may be made.
VI.XLIV.24

From the point of view of the capitalist mode of production there is always a relative increase in the price of products, when a product cannot be secured unless an expense is incurred, a payment made, which did not have to be met formerly. For by a reproduction of the capital consumed in production we mean only the reproduction of values, which were represented by certain means of production. Natural elements passing into production as agencies, no matter what role they play in production, do not enter into the problem as parts of capital, but as free gifts of nature to capital, that is, as a free natural productivity of labor, which, however, appears as a productive power of capital, as do all other productive powers under the capitalist system. Therefore, if such a natural power, which originally does not cost anything, takes part in production, it does not count in the

determination of prices, so long as the product supplied by its help suffices for the demand. But if a larger product is demanded than that which can be supplied by the help of this natural power, so that the additional product must be created without this power, or by assisting it with human labor power, then a new additional element enters into capital. A relatively larger investment of capital is required for the purpose of securing the same product. All other circumstances remaining the same, the price of the product is raised.

(From a manuscript "Started about the Middle of February, 1876.") Differential Rent and Rent as a mere interest on capital invested in the soil.

VI.XLIV.25

The so-called permanent improvements‘which change the physical, and in part also the chemical, condition of the soil by means of operations requiring an expenditure of capital, and which may be regarded as an incorporation of capital in the soil‘nearly all amount to giving to a certain piece of land in a certain limited locality such qualities as are possessed by some other piece of land at some other locality, sometimes quite near to the other one, by nature. One piece of land is by nature level, another has to be leveled; one possesses natural drainage, another has to be drained artificially; one has naturally a deep top soil, another must be artificially deepened; one clay soil is

naturally mixed with a proper modicum of sand, another has to be treated for the purpose of making it so; one meadow is irrigated or moistened naturally, another requires labor to get it into this condition, or in the language of bourgeois economists, it requires capital.
VI.XLIV.26

It is indeed a very exhilarating theory, which calls rent by the name of interest in the case of one piece of land, whose comparative advantages have been acquired, whereas it does not do so in the case of a piece of land which has the same advantages naturally. (As a matter of fact, this is distorted in practice into saying that because rent really coincides in the one case with interest, it must falsely be called interest in cases where this is positively not the case.) However, the land yields a rent after the investment of capital, not because capital has been invested, but because the investment of capital makes this land more productive than it was formerly. Assuming that all land requires this investment, then every piece of land which has not received it must first pass through this stage, and the rent which the soil already endowed with capital yields (the interest which it may pay in a certain case), constitutes as much a differential rent as though it possessed this advantage by nature and the other land had to acquire it artificially.
VI.XLIV.27

This rent, which may be resolved into pure interest, becomes altogether a differential rent, as soon as the invested capital is sunk in the land. Otherwise the same capital would have to appear twice as capital.
VI.XLIV.28

It is one of the most amusing incidents, that all opponents of Ricardo, who combat the determination of value exclusively by labor, criticize in the case of differential rent arising from differences of soil the determination of value by nature instead of by labor. But at the same time they credit the location of the land with this determination, or perhaps, even more, the interest on capital sunk in the land during its cultivation. The same labor produces the same value in the product created during a certain time. But the magnitude, or the quantity, of this product, and consequently also that portion of value, which falls upon some aliquot part of this product, depends only upon the quantity of the product, so long as the quantity of labor is given, and the quantity of the product, in its turn, depends upon the productivity of the given quantity of labor, not upon the size of this quantity. It is immaterial, whether this productivity is due to nature or to society. Only in the case in which the productivity costs labor, and consequently capital, does it increase the cost of production by a new element, but this is not the case with nature alone.

Part VI,

Volume III Chapter XLV. ABSOLUTE GROUND-RENT.

VI.XLV.1

IN the analysis of ground-rent we proceeded from the assumption, that the worst soil does not pay any ground-rent, or, to put it more generally, that only such land pays ground-rent as produces at an individual price of production which is below the price of production regulating the market, so that in this way a surplus profit arises which is transformed into rent. It should be remembered that the law of differential rent as such is entirely independent of the correctness or incorrectness of this assumption.

VI.XLV.2

Let us call the general price of production, by which the market is regulated, P. Then P coincides for the product of the worst soil A with its individual price of production; that is to say, its price pays for the constant and variable capital consumed in its production plus the average profit (profits of enterprise plus interest).

VI.XLV.3

The rent amounts to zero in this case. The individual price of production of the next better soil B is equal to P', and P is larger

than P'; that is P pays more than the actual price of production of the product of the soil B. Now let us assume that P minus P' is d; in this case d, the excess of P over P'. is a surplus profit, which the tenant realises upon class B of soil. This d is converted into rent, which must be paid to the landlord. Let the actual price of production of the third class of soil, C, be P'', and P minus P'' equal to 2d; then this 2d is converted into rent; likewise let the individual price of production of the fourth class of soil, D, be P'', and P minus P'' equal to 3d, which is converted into ground-rent, etc. Now take it that the assumption of a rent upon soil A equal to zero and of a price of production equal to P plus zero is wrong. Rather let the class A of soil also pay a rent, equal to r. In that case we come to two conclusions.

VI.XLV.4

First: The price of the product of the land of class A would not be regulated by its price of production, but by containing a surplus above it would come to P+r. For assuming the capitalist mode of production to be in a normal condition, that is, assuming that the surplus r, which the tenant pays to the landlord, is neither a deduction from wages nor from the average profit of capital, it can be paid only by selling the product above its price of production, so that a surplus profit arises, which the tenant might keep if he did not have to turn it over to the landlord as a rent. In that case the regulating market price of the total product of all soils existing on the market would not

be the price of production, which capital generally makes in all spheres of production, which is a price equal to the cost of production plus the average profit, but it would be the price of production plus the rent, P+r, and not merely P. For the price of the product of soil A expresses generally the limit of the regulating general market price, at which the total product can be supplied, and to the extent it regulates the price of this total product.
VI.XLV.5

Secondly: Nevertheless the law of differential rent would not be suspended in this case, although the general price of the products of the soil would be essentially modified. For if the price of the product of class A should be P + r, and this should be the general market price, than the price of class B would be likewise P + r, and so would be the price of classes C, D, etc. But since P‘P' = d, in the case of class B, it is evident that (P + r)‘(P' + r) is also equal to d, and P‘P'' in the case of class C would mean that (P + r)‘(P'' + r) is equal to 2d, and P‘P'' in the case of class D would mean that the formula (P + r)‘(P'' + r) is equal to 3d, and so forth. In other words, the differential rent would still be regulated by the same law as before, although the rent would contain an element independent of this law and would show a general increase in the same way as would the price of the products of the soil. It follows, then, that no matter what may be the condition of the rent upon the least fertile lands, the law of differential rent is not only independent of it, but that also the only

manner of viewing differential rent in keeping with its character, is to place the rent of class A at zero. Whether this is zero or larger than zero, is immaterial, so far as the differential rent is concerned, and is not considered in the calculation.
VI.XLV.6

The law of differential rent, then, is independent of the results of the following investigations.
VI.XLV.7

If we now go more deeply into the question, as to what is the sound basis of the assumption that the product of the worst soil A does not pay any rent, we necessarily get the answer: If the market price of the products of the land, say of grain, reaches such a level that an additional investment of capital in the class A of soils pays the ordinary price of production and yields the ordinary average profit to the capitalist, then this is sufficient incentive for investing additional capital in soil of class A. In other words, this condition satisfies the capitalist that new capital may be invested at the average profit and employed in the normal manner.
VI.XLV.8

It should be noted here that in case, likewise, the market price must be higher than the price of production of A. For as soon as the additional supply has been created, the relation between supply and

demand has been altered. Formerly the supply was insufficient, now it is sufficient. So the price must fall . In order to fall, it must have been higher than the price of production of A. But the lesser fertility of the newly added soils of class A brings it about that the price does not fall quite as low as it was at the time when the price of production of the class B regulated the market. The price of production of A forms the limit, not for the temporary, but for the relatively permanent rise of market price.
VI.XLV.9

On the other hand, if the newly cultivated soil is more fertile than that of the hitherto regulating class A, yet only to the extent of satisfying the increased demand, then the market price remains unchanged. The inquiry as to whether the lowest class of land pays any rent, nevertheless coincides also in this case with our present inquiry, for here again the assumption that class A does not pay any rent must be explained out of the fact that the market price satisfies the capitalist tenant that this price will cover the invested capital plus the average profit, in brief, that the market price will cover the price of production of his commodities.
VI.XLV.10

At any rate, the capitalist tenant can cultivate soil of class A under these conditions, in so far as he has any decision in this matter in his capacity as a capitalist. The prerequisite for a normal self-expansion of

capital is now present upon soil A. But the fact that the average conditions of self- expansion would now enable the capitalist tenant to invest capital in soil of the class A if he did not have to pay any rent, does not imply that such land is at the disposal of the capitalist without any further ceremony. The circumstance that the capitalist tenant might invest his capital at the average profit, if he did not have to pay any rent, is no incentive for the landlord to lend his land to the tenant gratis and be so philanthropic as to grant free credit to this friend in business. To assume that this would be done would be to do away with private property in land, for its existence is precisely an obstacle to the investment of capital and to the liberal self-expansion of capital through land. This obstacle does not fall by any means before the simple reflection of the tenant that the condition of grain prices would enable him to get the average profit out of an investment of capital in class A of soil, if he did not have to pay any rent, in other words, if he could proceed as though private property in land did not exist. But differential rent is based upon the fact that private property in land exists, that the land monopoly is an obstacle of capital, for without it the surplus profit would not be converted into ground-rent and would not fall into the hands of the landlord instead of those of the capitalist tenant. Private property in land remains as an obstacle, even where differential rent as such is not paid, that is, upon soils of the class A. If we observe the cases, in which capital may be invested in the land, in a country with capitalist production, without paying any rent, we shall find that they imply, all of them, a

practical abolition of private property in land, even if not a legal abolition, a condition which is found only under very definite circumstances, which are in their very nature accidental.
VI.XLV.11

First: This may take place when the landlord is himself a capitalist, or the capitalist himself a landlord. In this case he may himself exploit his land, as soon as the market price shall have risen sufficiently to enable him to get the price of production, that is, cost of production plus the average profit, out of what is now land of class A. But why? Because for himself private property in land is not an obstacle to the investment of his capital. He can treat his land simply as an element of nature, and can listen wholly to considerations of expediency concerning his capital, to capitalist considerations. Such cases occur in practice, but only as exceptions. Just as the capitalist cultivation of the land presupposes the separation of the active capital from property in land, so it excludes as a rule the self-management of property in land. It is evident, that the opposite is only an exception. If the increased demand after grain requires the cultivation of a larger area of land of the class A than is in the hands of self-managing proprietors, in other words, if a part of such land must be rented in order to be cultivated at all, then this hypothetical conception of the obstacle created by private property in land for capital and its investment at once collapses. It is an absurd contradiction to start out from the differentiation between capital and land, capitalist tenants

and landlords, which corresponds to the capitalist system, and then to turn around and assume that the landlords, as a rule, exploit their own land in all cases and to the full extent, where capital would not get a rent out of the cultivation of the soil, if private property in land were not separate and distinct from it. (See the passage from Adam Smith concerning mining rent, quoted further along.) Such an abolition of private property in land is accidental. It may or may not occur. VI.XLV.12

Secondly: In the total area of some rented land there may be certain portions, which do not pay any rent under the existing condition of market prices, so that they are virtually loaned gratis, although the landlord does not look upon it in that light, because he does not consider the special rent of some particular patches in the total rental of his rented land. In such a case, so far as such patches are exempt from rent, private property as an obstacle to the investment of capital is obliterated for the capitalist tenant, and his contract with the landlord implies as much. But he does not pay any rent for such patches for the simple reason that he pays rent for the land to which they belong. The assumption in this case deals with a combination, in which the worse land of the class A is not an independent resort by which to supply the missing product, but rather an inseparable part of some better land. But the case to be investigated is precisely that in which certain pieces of land of class A are independently cultivated,

and must be rented separately under the general conditions of capitalist production.
VI.XLV.13

Thirdly: A capitalist tenant may invest additional capital upon the same rented land, although the additional product secured in this way nets him only the price of production at the prevailing market prices, so that he gets only the average profit, but does not get any surplus profit with which to pay rent. In that case he pays ground-rent with a portion of the capital invested in the land, but does not pay any ground-rent with the remainder of his invested capital. How little this assumption solves the problem in question, is seen by the following considerations: If the market price (and the fertility of the soil) enables him to obtain a larger yield with his additional capital, so that this additional capital secures for him not merely the price of production, the same as his old capital, but also a surplus profit, then he pockets this surplus profit himself so long as his present lease runs. But why? Because the obstacle of private property has been eliminated for his capital during the time of his lease. But the simple fact, that new and inferior soil must be independently cleared and independently rented, in order to secure this surplus profit for him, proves that the investment of additional capital upon the old soil no longer suffices to fill the required increased demand. One assumption excludes the other. It is true that one might say: The rent of the worst soil A is itself a differential rent compared either to the land

cultivated by the owner himself (which is an accidental exception), or with the additional investment of capital upon the old leaseholds which do not produce any rent. However, this would be a differential rent, which would not arise from the difference in fertility of the various classes of soil, and which would, therefore, not be based upon the assumption that class A of soil does not pay any rent and sells its product at the price of production. And furthermore, the question as to whether additional investments of capital upon the same leasehold produce any rent or not is quite immaterial for the question, whether the new soil of class A, which is about to be taken under cultivation, pays any rent or not, just as it is immaterial for the organization of a new and independent manufacturing business whether another manufacturer of the same line of business invests a portion of his capital in interest-bearing papers, because he cannot use all of it in his business; or whether he makes certain improvements, which do not secure the full profit for him, but at least more than interest. This is immaterial for him. The new establishments must produce the average profit and are built on this assumption. It is true that the additional investments upon the old leaseholds and the additional cultivation of new land of class A mutually restrict one another. The limit, up to which additional capital may be invested upon the same leasehold under less favorable conditions of production, is determined by the new competing investments upon soil of class A; on the other hand, the rent which may be produced by this class of soil is limited

by the competing additional investments of capital upon the old leaseholds.
VI.XLV.14

But all these false subterfuges do not solve the problem, which in simple language consists of this: Assuming the market price of grain (which shall be typical of all products of the soil in this inquiry) to be sufficient for the purpose of taking portions of soil of class A under cultivation and securing the price of production (cost of production plus average profit) by means of the capital invested in these new fields, in other words, assuming the conditions for the normal self-expansion of capital upon the soil A to be existent, is this sufficient cause for making the investment of such capital really possible? Or must the market price raise to a point where even the worst soil A will produce a rent? Does the monopoly of the land owner place an obstacle in the way of the capitalist who wants to invest, an obstacle which would not exist from the capitalist's point of view without that monopoly in land? The conditions, under which this question is put, show that the question as to whether capital may really be invested in soil of A class A, which would produce the average profit, but no rent is not at all solved by the fact that, for instance, additional investments upon the old leaseholds may exist, which produce only the average profit but no rent at the prevailing market prices. The question still remains unanswered. The fact that the additional investments, which do not produce any rent, do not satisfy the

demand is proved by the necessity of taking new land under cultivation out of class A. If the additional cultivation of land of class A takes place only to the extent that it produces a rent, that is, more than the price of production, then only two cases are possible. Either the market price must be such that even the last additional investment of capital upon the old leaseholds produce a surplus profit, which may be pocketed by the tenant or by the landlord. This raise in price and this surplus profit of the last additional investment of capital would then be a result of the fact that soil A cannot be cultivated without producing a rent. For if the price of production were sufficient to bring about a cultivation of land A, if the mere average profit were enough for that, then the price would not have risen to this point and the competition of new lands would have manifested itself as soon as they could produce just this price of production. The additional investments upon the old leaseholds, which do not produce any rent, would then have to compete with the investments upon soil A, which likewise do not produce any rent. Or, the last investments upon the old leaseholds may not produce any rent, but still the market price may have risen sufficiently to make the cultivation of soil A possible and to get a rent out of it. In this case, the additional investment of capital, which does not produce any rent, would be possible only for the reason that soil A could not be cultivated until the market price enabled it to produce a rent. Without this condition its cultivation would have begun when prices stood lower; and those later investments of capital upon the old leaseholds, which require a high

market price in order to produce the ordinary profit without any rent, could not have taken place. For they produced only the average profit at the high market prices. At a lower market price, which would have become the regulating market price of production from the time that soil A would have been taken under cultivation, those later investments upon the old leaseholds could not have produced this average profit, and this means that the investments would not have been made under such conditions. In this way, the rent of soil A would indeed form a differential rent, compared to the investments upon the old leasehold, which do not produce any rent. But the fact that the area of A forms such a differential rent is but a consequence of the condition that this area is not taken under cultivation at all, unless it produces a rent. The first condition in this case is that the necessity of this rent, which is not based upon any differences of soil, must exist and from a barrier to the possible investment of additional capitals upon the old leaseholds. In either case, the rent of soil A would not be a simple consequence of the rise in grain prices, but on the contrary, the fact that the worst soil must produce a rent in order to become available for cultivation would be the cause of a rise in the price of grain to the point at which this condition may be fulfilled.
VI.XLV.15

The differential rent has this peculiarity, that the landlord merely catches the surplus profit which would otherwise go into the pocket of the tenant, and which the tenant may actually pocket under certain

circumstances during the time of his lease. The property in land is here merely the cause of the transfer of a portion of the price of the product, which arises without any active participation of the landlord in production and resolves itself into surplus profit. This transfer of a portion of the price from one individual to another, from the capitalist to the landlord, is due to private property in land. But private ownership of land is not the cause which creates this portion of the price, or brings about the rise in the price, upon which it is conditioned. On the other hand, if the worst soil A cannot be cultivated‘although its cultivation would yield the price of production‘ until it produces something in excess of the price of production, then private property in land is the creative cause of this rise in price. Private property in land itself has created rent. This fact is not altered, if, as in the second case mentioned, the rent now produced by soil A is a differential rent compared with the last additional investment of capital upon the old leaseholds, which pays only the price of production. For the circumstance, that soil A cannot be cultivated, until the regulating price of production has risen high enough to admit of a rent for soil A, is in this case the sole reason of the rise of the market price to that level, which enables the last investments upon the old leaseholds to secure the price of production, by means of which a rent is obtained from soil A. The fact that this soil has to pay any rent at all is in this case the cause which creates a differential rent between soil A and the last investment upon the old leaseholds.

Speaking in general of the fact that class A of soil, under the assumption that the price of grain is regulated by the price of production, does not pay any rent, we mean rent in the categorical sense of the word. If the tenant pays a rent, which is either a deduction from the normal wages of his laborers, or from his own normal average profit, then he does not pay a rent which is clearly distinguished from wages and profit in the price of his product. We have already indicated that this takes place continually in practice. To the extent that the wages of the agricultural laborers in a certain country are continually depressed below the normal level of wages, so that a part of the wages, being deducted from them, passes generally over into the rent, this is no exception for the tenant upon the worst kind of soil. In the same price of production, which makes the cultivation of the worst soil possible, these low wages already form a constituent element, and the sale of his product at the price of production does not enable the tenant upon this soil to pay any rent. The landlord might rent his land also to some laborer, who may be satisfied to pay all or a part of that in the form of rent which he may get in the selling price above the wages. In all these cases, however, no real rent is paid, but merely lease money. But wherever conditions correspond to the capitalist mode of production, rent and lease money must coincide. It is precisely this normal condition which must be analyzed here.

A reference to colonial conditions proves even less for our problem than do the above-mentioned cases, in which actual investments of capital under conditions of capitalist production may take place upon the land without producing any rent. What makes a colony of a colony‘we have in mind only true agricultural colonies‘is not merely the vast area of fertile lands in a natural state. It is rather the circumstance that these lands are not appropriated, are not brought under private ownership. It is this which makes the enormous difference between the old countries and the colonies, so far as the land is concerned, it is this nonexistence, legal or actual, of private property in land, as Wakefield remarks correctly;*129 and long before him the elder Maribeau, the physiocrat, and other older economists had discovered. It is quite immaterial here, whether the colonists take possession of the land without further ceremony, or whether they pay to the state a fee for a valid title to the land under the title of a nominal price of land. It is also immaterial, that already settled colonists may be legally the owners of land. In fact the land ownership is not an obstacle to the investment of capital here, nor to the employment of labor upon land without any capital. The setting of a part of the land by the established colonists does not prevent the newcomers from employing their capital or their labor upon new land. Therefore, if we are asked to investigate the influence of private ownership of land upon the prices of the products of land and upon

the rent in places where such ownership is an obstacle to the investment of capital, it is very absurd to speak of free bourgeois colonies, in which neither the capitalist mode of production in agriculture, nor the form of private property belonging to it, exist, and in which the latter does not exist at all in fact. Ricardo is an illustration of this in his chapter on ground-rent. In the beginning he says that he is going to investigate the effect of the appropriation of land upon the value of the products of the soil, and immediately after that he takes for an illustration the colonies, assuming that real estate exists in a relatively elementary form and that its exploitation is not limited by the monopoly of private ownership in land.

VI.XLV.18

The mere legal property in land does not create any ground-rent for the landlord. But it gives him the power to withdraw his land from exploitation until the economic conditions permit him to utilize it in such a way that it will yield him a surplus, whenever the land is used either for agriculture proper or for other productive purposes, such as buildings, etc. He cannot increase or decrease the absolute quantity of its field of employment, but he can do so with its marketable quantity. For this reason, as Fourier has already remarked, a characteristic fact in all civilized countries is that a comparatively considerable portion of the land always remains uncultivated.
VI.XLV.19

Assuming, then, that the demand requires the opening up of new lands, and that these lands are less fertile than those hitherto cultivated, will the landlord rent such lands for nothing, just because the market price of the products of the soil has risen high enough to pay to the tenant the price of production on his investment in this land and enable him to reap the average profit? By no means. The investment of capital must net him a rent. He does not rent his land until he can get lease money for it. Therefore the market price must have risen above price of production to the point P+r, so that a rent can be paid to the landlord. Since the real estate does not net any income, according to our assumption, until it is rented, so that it is economically valueless until then, a small rise of the market price above the price of production will suffice to bring the new land of the worst class upon the market.
VI.XLV.20

The question is now: Does it follow from the ground-rent of the worst soil, which cannot be derived from any difference of fertility, that the price of the products of the soil is necessarily a monopoly price in the ordinary meaning of the term, or a price, into which the rent enters like a tax, only with the distinction that the landlord levies the tax instead of the state? It is a matter of course that this tax has certain definite economic limits. It is limited by the additional investments of capital upon the old leaseholds, by the competition of the products of

the soil of foreign countries, which are imported free of duty, by the competition of the landlords among themselves, and finally by the wants and the solvency of the consumers. But this is not the point. The point is whether the rent paid by the worst soil passes into the price of its products, which price regulates the general market price according to our assumption, and whether it enters into this price in the same way as a tax enters into the price of commodities which are dutiable, in other words, whether this rent enters into the price as an element independent of its value.
VI.XLV.21

This does not necessarily follow by any means, and the contention that it does has been made only because the distinction between the value of commodities and their price of production had not been understood up to the present. We have seen that the price of production of a commodity is by no means identical with its value, although the prices of production of all commodities, considered as a whole, are regulated only by their total value, and although the movement of the prices of production of the various kinds of commodities, taking all other circumstances as equal, is controlled exclusively by the movement of their values. It has been demonstrated that the price of production of a commodity may stand above or below its value, and coincides but rarely with its value. Hence the fact that the products of the soil are sold above their prices of production does not prove by any means that they are sold

above their values. Neither does the fact, that the products of industry are, on an average sold at their prices of production, prove that they are sold at their values. It is possible that the products of agriculture are sold above their price of production and below their value, while many products of industry bring the price of production only because they are sold above their value.
VI.XLV.22

The relation of the price of production of a certain commodity to its value is exclusively determined by the proportion, in which the variable part of their capital with which it is produced stands to its constant part, or by the organic composition of the capital producing it. If the composition of the capital in a certain sphere of production is lower than that of the social average capital, in other words, if its variable portion, which is used for wages, is relatively larger than its constant portion, which is invested in material requirements of production, compared to the social average capital, then the value of its products must stand above their price of production. In other words, such a capital, employing more living labor, produces at the same rate of exploitation of labor more surplus-value, and therefore more profit, than an equally larger aliquot portion of the social average capital. The value of its products stands, therefore, above their price of production, since this price of production is equal to the cost of production plus the average profit, and the average profit is lower than the profit produced in these commodities. The surplus-value

produced by the social average capital is smaller than that produced by a capital of this lower composition. On the other hand, when the capital invested in a certain sphere of production is of higher than average composition, then the case is reversed. The value of the commodities produced by it stands below their price of production, and this is generally the case with the products of the most highly developed industries.
VI.XLV.23

If the capital in a certain sphere of production is of a lower composition than the social average capital, then this is primarily an expression of the fact that the productive power of the social labor in this particular sphere of production is below the average; for the prevailing degree of productive power shows itself in the relative preponderance of the constant over the variable capital, or in the continual decrease of the portion used in a certain capital for wages. On the other hand, if the capital in a certain sphere of production is of a higher composition, then it expresses a development of the productive power above the average.
VI.XLV.24

Leaving aside the work of artists, which is naturally excluded from our discussion, it is a matter of course that different spheres of production require different proportions of constant and variable capital according to their technical peculiarities, and that living labor must occupy more

room in some, less room in others. For instance, in the extractive industries, which must be clearly distinguished from agriculture, raw material as an element of constant capital is wholly absent, and even the auxiliary material plays only rarely an important role in them. Nevertheless the progress of development may be measured also in them by the relative increase of the constant over the variable capital. VI.XLV.25

If the composition of the capital in agriculture proper is lower than that of the social average capital, then this would be on its face an expression of the fact that in countries with a developed production agriculture has not progressed as far as the industries which work up its products. This fact could be explained, aside from all other economic circumstances which are of paramount importance, from the earlier and more rapid development of mechanical sciences, and especially by their application, compared to the later and partly quite recent development of chemistry, geology and physiology, and particularly their application to agriculture. For the rest it is an indubitable and long known fact*130 that also the progress of agriculture expresses itself steadily in a relative increase of the constant over the variable capital. Whether in a certain country with capitalist production, for instance in England, the composition of the agricultural capital is lower than that of the social average capital, is a question which can be decided only by statistics, and which need not be discussed in detail for the purposes of this inquiry. So much is

theoretically accepted that the value of the agricultural products cannot be higher then their price of production unless this condition obtains. In other words, a capital of a certain size in agriculture produces more surplus-value, or what amounts to the same, sets in motion and commands more surplus-labor (and with it employs more living labor) than a capital of the same size in industry of social average composition.
VI.XLV.26

This assumption, then, suffices for that form of rent which we are analyzing here, and which can take place only so long as this assumption holds good. Wherever this assumption falls, the form of rent corresponding to it falls likewise.
VI.XLV.27

However, the mere fact of an excess of the value of agricultural products over their price of production would not suffice in itself for the explanation of the existence of a ground-rent, which is independent of differences of fertility or of successive investments of capital upon the same land, a rent which is to be clearly differentiated from differential rent, and which we way therefore call absolute rent. Quite a number of manufactured products have the peculiarity that their value is higher than their price of production, and yet they do not produce any excess above the average profit, a surplus profit, which might be converted into rent. On the other hand, the existence

and meaning of the price of production and of the average rate of profit which it implies rest upon the fact that the individual commodities are not sold at their value. The prices of production arise from an equalization of the values of commodities. This equalization after restoring their respective capital values to the various spheres of production, in which they were consumed, distributes the entire surplus-value, not in proportion as it has been produced in the individual spheres of production and incorporated in their commodities, but in proportion to the magnitude of the capital invested in them. Only in this way is an average profit brought about and with it the price of production, whose characteristic element this average profit is. It is the continual tendency of the capitals to bring about this equalization in the distribution of the surplus-value produced by the total capital by means of competition, and to overcome all obstacles to this equalization. This implies the tendency to permit only such surplus profits as arise under all circumstances, not from differences between the values and the prices of production of the commodities, but rather from the general prices of production, which regulates the market and from the individual prices of production, which differ from it. In other words, only such surplus profits are tolerated, which occur within a certain sphere of production and not such as occur between two different spheres of production, so that they do not touch the general prices of production of the different spheres, or their general rate of profit, but which rather have for their basis the conversion of values into prices of production and into an average rate of profit for

the whole. This condition rests, however, as previously explained, upon the continually changing proportional distribution of the total social capital among the various spheres of production, upon the unremitting emigration and immigration of capitals, upon their transfer from one sphere to another, in short upon their free movement between the various spheres of production, which represent so many available fields of investment for the independent constituents of the total capital of society. And the other assumption in this case is that no barrier, or at least only a temporary and accidental barrier, interferes with the competition of the capitals, for instance in some sphere of production, in which the value of the commodities is higher than their prices of production, or where the produced surplus-value is larger than the average profit, so that nothing prevents the reduction of value to a price of production and the proportional distribution of the excess of surplus-value of this sphere of production among all spheres exploited by capital. But if the reverse happens, if capital meets some foreign power, which it cannot overcome, or which it can but partially overcome, and which limits its investment it certain spheres, admitting it only under conditions which wholly or partly exclude that general equalization of surplus-value to an average profit, then it is evident that the excess of the value of commodities in such spheres of production over their prices of production would give rise to a surplus profit, which could be converted into rent and made independent as such compared to profit. Such a foreign power is private ownership of

land, when it builds obstacles against capital in its endeavor to invest in land, such a power is the landlord in his relation to the capitalist. VI.XLV.28

Private property in land is then the barrier which does not permit any new investment of capital upon hitherto uncultivated or unrented land without levying a tax, in other words, without demanding a rent, although the land to be taken under new cultivation may belong to a class which does not produce any differential rent, and which, were it not for the intervention of private property in land, might have been cultivated at a small increase in the market price, so that the regulating market price would have netted to the cultivator of this worst soil nothing but his price of production. But on account of the barrier raised by private property in land, the market price must rise to a point, where the land can pay a surplus over the price of production, in other words, where it can pay a rent. Now, since the value of the commodities produced by agricultural capital is higher than their price of production, as we have assumed, this rent (with the exception of one case which we shall discuss immediately) forms the excess of the value over the price of production, or a part of it. Whether the rent consumes the entire difference between the value and the price of production, or only a greater or smaller part of it, will depend wholly upon the relation between supply and demand and upon the area of the new land taken in cultivation. So long as the rent is not equal to the excess of the value of agricultural products

over their price of production, a portion of this excess would always enter into the general equalization and proportional distribution of all surplus-value among the various individual capitals. As soon as the rent is equal to the excess of the value over the price of production, this entire portion of the surplus-value over and above the average profit would be withdrawn from the equalization. But whether this absolute rent is equal to the whole surplus of value over the price of production, or only equal to a part of it, the agricultural products would always be sold at a monopoly price, not because their price would exceed their value, but because their price would be equal to their value, or because their price would be lower than their value but higher than their price of production. Their monopoly would consist in the fact that they are not, like other products of industry whose value is higher than the general price of production, leveled to the plane of the price of production. Since one portion of the value and of the price of production is an actually existing constant element, namely the cost price, representing the capital k consumed in production, their difference consists in the other, the variable, portion, the surplus-value, which amounts to p in the price of production, that is, to the profit which is equal to the total surplus-value calculated on the social capital and on every individual capital as an aliquot part of the social capital. This profit equals in the value of commodities the actual surplus-value created by this particular capital, and forms an integral part of the value of commodities created by this capital. If the value of commodities is higher than their price of production, then the price

of production is k+p, the value k+p+d, so that p+d represents the surplus-value contained in it. The difference between the value and the price of production is, therefore, equal to d, the excess of the surplus-value created by this capital over the surplus-value assigned to it by the average rate of profit. It follows from this that the price of agricultural products may stand higher than their price of production, without reaching up to their value. It follows, furthermore, that up to a certain point a permanent increase in the price of agricultural products may take place, before their price reaches their value. It follows also that the excess in the value of agricultural products over their price of production can become a determining element of their general market price only because there is a monopoly in private ownership of land. If follows, finally, that in this case the increase in the price of the product is not the cause of the rent, but rather the rent is the cause of the increase in the price of the product. If the price of the product of the unit of the worst soil is equal to P+r, then all differential rents will rise by the corresponding multiples of r, since the assumption is that P+r becomes the regulating market price. VI.XLV.29

If the average composition of the non-agricultural capital were 85c+15v, and the rate of surplus-value 100%, then the price of production would be 115. If the composition of the agricultural capital were 75c+25v, and the rate of surplus-value the same, then the value of the agricultural product and the regulating market price would be

125. If the agricultural and the non-agricultural product should be leveled to the same average price (we assume for the sake of brevity that the total capital in both lines of production is equal), then the total surplus-value would be 40, or 20%, upon the 200 of capital. The product of the one as of the other would be sold at 120. In the equalization into the prices of production the average market prices of the non-agricultural capital would stand above, and those of the agricultural capital below their value. If the agricultural products were sold at their full value, they would stand higher by 5, and the industrial products lower by 5, than they do in the equalization. If the market conditions do not permit the sale of the agricultural products at their full value, at the full surplus above the price of production, then the result hangs between the two extremes; the industrial products would be sold a little above their value, and the agricultural products a little above their price of production.
VI.XLV.30

Although the private ownership of land may drive the price of the products of the soil above their price of production, it does not depend upon this ownership, but upon the general condition of the market, to what extent the market price shall exceed the price of production and approach the value, and to what extent the surplus-value created in agriculture over and above the given average profit shall either be converted into rent or enter into the general equalization of the surplus-value to an average profit. At any rate this

absolute rent, which arises out of the excess of value over the price of production, is but a portion of the agricultural surplus-value, a conversion of this surplus-value into rent, its appropriation by the landlord; so does the differential rent arise out of the conversion of surplus-profit into rent, its appropriation by the landlord, under an average price of production which acts as a regulator. These two forms of rent are the only normal ones. Outside of them the rent can rest only upon an actual monopoly price, which is determined neither by the price of production nor by the value of commodities, but by the needs and the solvency of the buyers. Its analysis belongs in the theory of competition, where the actual movement of market-prices is considered.
VI.XLV.31

If all the land suitable for agriculture in a certain country were leased‘ assuming the capitalist mode of production and normal conditions to be general‘then there would not be any soil that would not pay any rent; but there might be certain parts of some capitals invested in land that might not produce any rent. For as soon as the land has been rented, private property in land ceases to be an absolute barrier against the investment of the necessary capital. Still it continues to act as a relative barrier even after that, to the extent that the appropriation of the capital incorporated in the soil by the landlord draws very definite lines for the activity of the tenant. Only in this case would all rent be converted into a differential rent, although this

would not be a differential rent determined by any differences in the fertility of the soil, but rather by differences between the surplus profits arising from the last investments of capital in a certain soil and the rent paid for the lease of the soil of the worst quality. Private property in land serves as an absolute barrier to the investment of capital only to the extent that it exacts a tribute for the permission of giving access to the land. As soon as this access has been gained, it can no longer set any absolute obstacles in the way of the size of any investment of capital in a certain soil. The building of houses meets a barrier in the private ownership of the land upon which the houses are to be built by people who do not own this land. But after this land has once been leased for the purpose of building houses on it, it depends upon the tenant whether he wants to build a large or a small house.

VI.XLV.32

If the average composition of the agricultural capital were the same, or higher than that of social average capital, then absolute rent, in the sense in which we use this term, would disappear; that is, absolute rent which is different from differential rent as well as from the rent which rests upon an actual monopoly price. The value of agricultural capital would not stand above its price of production, in that case, and the agricultural capital would not set any more labor in motion, would not realize any more surplus labor, than the non-agricultural capital. The same would take place, if the composition of

the agricultural capital would gradually become the same as that of the average social capital with the progress of civilization.
VI.XLV.33

It looks at first glance like a contradiction, that we should assume that on the one hand the composition of the agricultural capital should become higher, in other words that its constant portion should increase faster than its variable one, and on the other hand that the price of the agricultural product should rise high enough to admit of the payment of a rent on the part of worse soil than that cultivated previously, a rent which in this case could come only from and excess of the market price over the value and the price of production, in short, a rent which could be due only to a monopoly price of the product.
VI.XLV.34

It is necessary to make a clear distinction here.
VI.XLV.35

In the first place, we saw in the discussion of the way, in which the rate of profit is formed, that capitals, which have the same composition, so far as their technological side is concerned, so that they set the same amount of labor in motion compared to machinery and raw materials, may nevertheless have different compositions owing to the different values of the constant portions of capital. The raw

materials or the machinery may be dearer in one capital than in the other. In order to set the same quantity of labor in motion (and this would have to be the case, according to our assumption, in order that the same mass of raw materials might be worked up), a larger capital would have to be advanced in the one case than in the other, since I cannot set the same amount of labor in motion, if the raw material, which must be paid out of 100, costs 40 in one case and 20 in another. But it would become evident that these two capitals have the same technological composition, as soon as the price of the expensive raw material would fall to the level of the cheap. The proportions of value between constant and variable capital would become the same in that case, although no change would have taken place in the technical proportions between the living labor and the mass and nature of the material requirements or production employed by this capital. On the other hand, a capital of low organic composition might assume the appearance of being in the same class with one of a higher organic composition, as soon as the value of its constant parts would rise through changes in the composition of its values. For instance, one capital might be composed of 60 c + 40 v, because it employs much machinery and raw material compared to living labor, and another capital might be composed of 40 c + 60 v, because it employs 60% of living labor, 10% of machinery, and 30% of raw material. In this case a simple rise in the value of raw and auxiliary materials from 30 to 80 would wipe out the difference in composition, for then the second capital would be composed of 10 machinery, 80

raw materials, and 60 labor-power, or of 90 c + 60 v, which, in percentages, would also be equal to 60 c + 40 v, although no change would have taken place in the technical composition. In other words, capitals of the same organic composition may have a different value-composition, and capitals with the same percentages of value-composition may be at different levels of organic composition and thus express different steps in the development of labor's social productivity. The mere circumstance, then, that the agricultural capital might stand upon the general level, would not prove that the social productivity of labor is equally high-developed in it. Nothing would be shown thereby but that its own product, which itself forms one of the conditions of its own production, had become dearer, or that auxiliary materials, such as manure, which used to be close at hand, must now be brought from far distant places, etc.
VI.XLV.36

But aside from this, the peculiar character of agriculture must be taken into consideration.
VI.XLV.37

Even though labor saving machinery, chemical helps, etc., may occupy more space in agriculture, so that the constant capital increases not merely in value, but also in mass, as compared to the mass of the employed labor-power, the question in agriculture (as in mining) is not only one of the social, but also of the natural productivity of labor

which depends upon natural conditions. It is possible that the increase of the social productivity in agriculture barely balances or does not even make up for, the decrease in natural power‘and compensation through social productivity will always be effective for a short time only‘so that in spite of the technical development there is no cheapening of the product, and that at best a greater increase in its price is prevented. It is also possible that the absolute mass of products decreases with a rising price of cereals, while the relative surplus product increases. This could take place, if the constant capital, consisting chiefly of machinery or animals, which require only a reproduction of their wear and tear, would increase relatively, and if the variable capital invested in wages, which must always be reproduced in full out of the product, should decrease correspondingly. VI.XLV.38

On the other hand it is possible, that only a moderate rise of the market price above the average is necessary, in order to cultivate and draw a rent from soil, which would have required a greater rise of the market prices so long as the technical helps were less developed. VI.XLV.39

The fact that, say in cattle raising on a large scale, the mass of the employed labor-power is very small compared with the constant capital represented by the cattle, might be considered as a refutation of the claim that the percentage of labor-power set in motion by agricultural

capital is larger than that employed by the average social capital outside of agriculture. But it should be noted here that we have taken for our basis in the analysis of rent that portion of the agricultural capital, which produces the principal vegetable food, which is the chief means of subsistence among civilized nations. Adam Smith‘and this is one of his merits‘has already demonstrated that quite a different method of determining prices is observed in cattle raising, and for that matter generally in the production of agricultural capitals not engaged in raising the principal means of subsistence, say of cereals. For in this case the price of cattle is determined by the fact that the price of the product of the soil used for cattle raising, say as an artificial pasture, but which might just as well be transformed into cereal fields of a certain quality, must rise high enough to produce the same rent as cereal land of the same quality. In other words, the rent of cereal lands becomes a determining element in the price of cattle. For this reason Ramsay has justly remarked that the price of cattle is artificially raised by the rent, by the economic expression of private ownership of land, in short by the private ownership of land.
VI.XLV.40

Adam Smith says in Book I, Chapter XI, Part I, of his Wealth of Nations, that in consequence of the extension of cultivation the uncultivated fallow land no longer suffices to supply the demand for cattle. A large portion of the cultivated lands must be used for breeding and fattening cattle, the price of which must be high enough

to pay not merely for the labor spent upon them, but also for the rent which the landlord and the profit which the tenant might have drawn out of this land, had it been cultivated as a field. The cattle raised upon the least tilled peat bogs are sold according to their weight and quality in the same market and at the same price as those raised upon the best cultivated land. The owners of peat bogs profit thereby and raise the rent of their lands in proportion to the prices of cattle.
VI.XLV.41

In this case, likewise, Smith represents the differential rent in favor of the worst soil as distinguished from grain rent.
VI.XLV.42

The absolute rent explains some phenomena, which seem to make a mere monopoly price responsible for the rent, at first sight. Take, for instance, the owner of some forest, which exists without any human assistance, say in Norway. This will do to make a connection with Adam Smith's example. If this owner of the forest receives a rent from some capitalist, who has timber cut, perhaps on account of some demand from England, or if this owner has the timber cut in his own capacity as a capitalist, then a greater or smaller rent will accrue to him in the timber, aside from the profit on the invested capital. This looks like a pure increment from monopoly in the case of this product of nature. But as a matter of fact the capital consists here almost

exclusively of variable elements invested in labor-power, and therefore it sets more surplus labor in motion than another capital of the same size. The value of the timber contains a greater surplus of unpaid labor, or of surplus-value, than that of a product of some capital of higher organic composition. For this reason the average profit can be drawn from this timber, and a considerable surplus in the form of rent can fall into the hands of the owner of the forest. On the other hand it may be assumed that, owing to the case with which the felling of timber as a line of production may be extended, the demand must rise very considerably, in order that the price of timber should equal its value, so that the entire surplus of unpaid labor (over and above that portion which falls into the capitalist's hands as an average profit) may accrue to the landlord in the form of rent.
VI.XLV.43

We have assumed that the newly cultivated soil is of a still lesser quality than the worst previously cultivated one. If it is better, it pays a differential rent. But here we are analyzing precisely that case, in which the rent does not appear as a differential rent. There are only two cases possible under these circumstances. Either the newly cultivated soil is inferior to the previously cultivated soil, or it is just as good. If it is inferior, then we have already analyzed the question. Nothing remains for us to analyze but the case in which it is just as good.
VI.XLV.44

We have already stated in our analysis of differential rent, that the progress of cultivation may just as well take equally good, or even better soil under new treatment as worse soil.
VI.XLV.45

First. In differential rent (or any rent, generally speaking, since even in the case of differential rent the question comes up, whether on the one hand the fertility of the soil in general, and on the other hand its location, admit of its cultivation at the regulating market price in such a way as to produce a profit and a rent) two conditions work in different directions, now paralyzing each other, now alternately exerting the determining influence. The rise of the market price‘ provided that the cost price of cultivation has not fallen, in other words, provided that no technical progress becomes a new impetus to further cultivation‘may bring more fertile soil under cultivation, which was formerly excluded from competition by its location. Or it may, in the case of inferior soil, enhance the advantage of location to such an extent, that its lesser fertility is balanced thereby. Or, without any rise in the market price, the location may carry better soils into competition through the improvement of means of communication, as we have seen on a large scale in the prairie states of North America. The same takes place also in the older civilized countries, continually if not to the same extent as in the colonies, in which, as Wakefield correctly states, the location determines the case. To sum up, then,

the contradictory effects of location and fertility, and the variableness of the factor of location, which is continually balanced and passes perpetually through progressive changes tending towards a balance, carry alternately better or worse classes of soil into new competition with the older ones under cultivation.
VI.XLV.46

Second. With the development of natural history and agronomics the fertility of the soil is also changed, by changing the means through which the elements of the soil may be rendered immediately serviceable. In this way light kinds of soil in France and in the eastern counties of England, which were considered inferior at one time, have recently risen to first place. (See Passy.) On the other hand soil, which was considered inferior, not for the reason that its chemical composition was bad, but that it placed certain mechanical and physical obstacles in the way of cultivation, is turned into good land, as soon as the means for overcoming such obstacles have been discovered.
VI.XLV.47

Third. In all old civilized countries old historical and traditional conditions, for instance in the form of government lands, community lands, etc., have accidentally withdrawn large tracts of land from cultivation, and these come back into it very gradually. The succession, in which they are taken under cultivation, depends neither

upon their good quality nor upon their location, but upon wholly external circumstances. In following up the history of English communal lands, as they were successively turned into private property through the Enclosure Bills and cultivated, nothing would be more ridiculous than the phantastic assumption, that a modern agricultural chemist like Liebig had indicated the selection of land in this succession, had designated certain fields for cultivation on account of their chemical peculiarities and excluded others. What decided the point in this case was the opportunity which tempted the thieves, it was the more or less plausible pretenses offered by the great landlords to excuse their appropriation of such lands.
VI.XLV.48

Fourth. Aside from the fact that the stage of development reached at any time by the increased population and capital sets a certain barrier to the extension of cultivation, even though it be an elastic barrier, and aside from the effects of accidents, which temporarily influence the market price, such as a series of good or bad seasons, the extension of agriculture over a larger area depends upon the entire condition of the market in capitals and upon the business condition of the whole country. In periods of stringency it will not be enough that uncultivated soil may produce the average profit for the tenant‘no matter whether he pays any rent or not‘in order that additional capital be invested in agriculture. On the other hand, in periods with a plethora of capital it will flow into agriculture, even without any rise in

market prices, so long as only the other normal conditions are present. Better soil than that hitherto cultivated would be excluded from competition for the sole reason that its location would be unfavorable, or that it would present insurmountable obstacles to its employment for the time being, or that it was kept out by accident. For this reason we must occupy ourselves with soils which are just as good as those last cultivated. Now there is always the difference in the cost of clearing for cultivation between the new soil and the last cultivated one. And it depends upon the stand of market prices and of credit whether new land is cleared or not. As soon as this soil actually enters into competition, the market price falls once more to its former level, assuming other conditions to be equal, and the new soil will then produce the same rent as the corresponding soil formerly cultivated as the last. The theory that it does not produce any rent is proved by its champions by assuming what they are precisely called upon to prove, namely that the soil which used to be the last did not pay any rent. One might prove in the same way that the houses which were built last do not produce any rent except the house rent proper, although they are leased. In fact, however, they do produce a rent even before they yield any house rent, for they often stand vacant for a long time. Just as successive investments of capital in a certain piece of land may bring a proportional surplus and thereby the same rent as the first investment, so fields of the same quality as those last cultivated may bring the same yield at the same cost. Otherwise it would be altogether inexplicable, how fields of the same

quality could ever be taken successively under cultivation, and not all of them at the same time, or rather not a single one of them in order to avoid their coming into competition at all. The landlord is always ready to draw a rent, in other words, to receive something for nothing. But capital requires certain conditions before it can comply with this wish of the landlord. The competition of the lands among themselves does not, therefore, depend upon the wish of the landlord that they should, but upon the opportunities offered to capital for competition with other capitals upon the new fields.
VI.XLV.49

To the extent that the agricultural rent proper is purely a monopoly price, such a price can only be small, just as the absolute rent can only be small under normal conditions, whatever may be the surplus of the product's value over its price of production. The nature of absolute rent, therefore, consists in this: Equally large capitals in different spheres of production produce, according to their different average composition, so long as the rate of surplus-value, or the degree of labor exploitation, is the same, different amounts of surplus-value. In industry these different masses of surplus-value are leveled into an average profit and distributed among the individual capitals uniformly and as aliquot parts of the social capital. Private property in land prevents such an equalization among capitals invested in the soil, whenever production requires real estate, either for agriculture or for the extraction of raw materials, and catches a portion of the surplus

value which would otherwise assist in the formation of the average rate of profits. The rent, then, forms a portion of the value, or more specifically of the surplus-value, of commodities and instead of falling into the hands of the capitalists, who extract it from their laborers, it is captured by the landlords, who extract it from the capitalists. The assumption is in this case that the agricultural capital sets more labor in motion than an equally large portion of the non-agricultural capital. How far the difference goes, or whether it exists at all, depends upon the relative development of agriculture as compared to industry. In the nature of the case this difference must decrease with the progress of agriculture, unless the proportion, in which the variable capital decreases as compared to the constant, is still greater in the industrial than in the agricultural capital.
VI.XLV.50

This absolute rent plays an even more important role in the extractive industry, properly so-called, where one element of constant capital, the raw material, is wholly missing, and where, with the exception of those lines, in which the capital consisting of machinery and other fixed capital is very considerable, by far the lowest composition of capital exists. Precisely here, where the rent seems wholly due to a monopoly price, extraordinarily favorable market conditions are necessary in order that commodities may be sold at their value, or that rent may become equal to the entire excess of surplus-value in a

commodity over its price of production. This applies, for instance, to rent in fishing waters, stone quarries, naturally grown forests, etc.*131

Notes for this chapter

129.
Wakefield, England and America, London, 1833. Compare also Capital Volume I, Chapter XXVII.
130.
See Dombasle and R. Jones.
131.
Ricardo passes over this very superficially. See his remarks against Adam Smith on Forest rent in Norway, in Principles, chapter II, in the beginning.

Part VI,

Volume III Chapter XLVI. BUILDING LOT RENT. MINING RENT. PRICE OF LAND.

VI.XLVI.1

DIFFERENTIAL rent appears every time and follows the same laws as the agricultural differential rent, wherever rent exists at all. Wherever natural forces can be monopolized and thereby guarantee a surplus

profit to the industrial capitalist using these forces, whether it be waterfalls, or rich mines, or waters teeming with fish, or a favorably located building lot, there the person who by his or her title to a portion of the globe has been privileged to own these things will capture a part of the surplus profit of the active capital by means of rent. Concerning mining lands, Adam Smith has explained that the basis of their rent, like that of all land not employed in agriculture, is regulated by the agricultural rent (Book I, Chapter, XI, 2 and 3). This form of rent is distinguished, first, by the overwhelming influence exerted by location upon differential rent (an influence which is very considerable in vineyards and in building lots of large cities); secondly, by the palpable passiveness of the owner, whose sole activity consists (especially in mines) in exploiting the progress of social development, toward which he contributes nothing and for which he risks nothing, unlike the industrial capitalist; and finally by the preponderance of the monopoly price in many cases, particularly by the most shameless exploitation of poverty (poverty is for house rent a more lucrative source than the mines of Potosi ever were for Spain*132 and by the tremendous power wielded by private property in land when united with industrial capital in the same hand and used for the purpose of practically excluding the laborers in their struggle for wages from the earth as a place of domicile.*133. One section of society thus exacts from another a tribute for the permission of inhabiting the earth. Private property in land implies the privilege of the landlord to exploit the body of the globe, the bowels of the earth, the air, and with

them the conservation and development of life. Not only the increase of population, and with it the growing demand for shelter, but also the development of fixed capital, which is either incorporated in the soil or takes root in it and is based upon it, such as all industrial buildings, railroads, warehouses, factory buildings, docks, etc., necessarily increase the building rent. A mistake between the house rent, to the extent that it is an interest and mortgage upon the capital invested in a house, and the rent for the mere land is not possible in this case, even with all the good will of a Carey, particularly when the landlord and the building speculator are different persons, as they are in England. Two elements should be considered here: On the one hand, the exploitation of the earth for the purpose of reproduction or extraction, on the other hand the space required as an element of all production and all human activity. Private property in land demands its tribute in both directions. The demand for building lots raises the value of the land as a building ground and foundation, and the simultaneous demand for elements of the terrestrial globe serving as building material grows with it.*134
VI.XLVI.2

That it is the ground-rent, and not the house, which forms the actual object of building speculation in rapidly growing cities, especially when building is carried on as an industry, as it is in London, we have already shown in Volume II, Chapter XII, pages 266-267, of the present work, where we quoted from the testimony of a large London

building speculator, Edward Capps, given before the Select Committee on Bank Acts. The same man said on that occasion, No. 5435: I believe that a man who wants to get on in the world can hardly expect to get along by sticking to a fair trade.…He must of necessity build also on speculation, and that on a large scale; for the contractor makes very little profit out of the buildings themselves, he makes his principal profits out of the rise of ground-rents. He takes up, for instance, a piece of land and pays 300 pounds sterling annually for it. If he erects the right class of houses upon it after a careful building plan, he may succeed in making 400 or 500 pounds sterling out of it, and his profit would consist much more of the increased ground-rent of 100 or 150 pounds sterling annually than of the profit from the buildings, which in many cases he does not consider at all.
VI.XLVI.3

And it should not be forgotten that after the lapse of the lease, at the end of 99 years, as a rule, the land with all the buildings upon it and with the ground-rent, generally increased to twice or thrice its original amount, reverts from the building speculator or from his legal successor to the original landlord who was the last to rent it.
VI.XLVI.4

The mining rent, in its strict meaning, is determined in the same way as the agricultural rent.
VI.XLVI.5

There are some mines, the product of which barely suffices to pay for the labor and to reproduce the capital invested in it together with the ordinary profit. They yield some profit to the contractor, but no rent to the landlord. They can be worked to advantage only by the landowner, who in his capacity of a contractor makes the ordinary profit out of his invested capital. Many coal mines in Scotland are operated in this way, and cannot be operated in any other way. The landowner does not permit anybody to work them without the payment of rent, but no one can pay any rent for them. (Adam Smith, Book I, Chapter XI, 2.)
VI.XLVI.6

It is necessary to distinguish, whether the rent flows from a monopoly price, because a monopoly price of the product or of the soil exists independently of it, or whether the products are sold at a monopoly price, because a rent exists. When we speak of a monopoly price, we mean in a general way a price which is determined only by the eagerness of the purchasers to buy and by their solvency, independently of the price which is determined by the general price of production and by the value of the products. A vineyard producing wine of very extraordinary quality, a wine which can be produced only in a relatively small quantity, carries a monopoly price. The winegrower would realize a considerable surplus profit from this monopoly price, the excess of which over the value of the product

would be wholly determined by the wealth and the fine appetite of the rich wine drinkers. This surplus profit, which flows from a monopoly price, is converted into rent and in this form falls into the hands of the landlord, thanks to his title to this piece of the globe, which is endowed with peculiar properties. Here, then, the monopoly price creates the rent. On the other hand, the rent would create a monopoly price, if grain were sold not merely above its price of production, but also above its value, owing to the barrier erected by the private ownership of the land against the investment of capital upon uncultivated soil without the payment of rent. That it is only the title of a number of persons to the possession of the globe which enables them to appropriate a portion of the surplus labor of society to themselves, and to do so to an increasing extent with the development of production, is concealed by the fact that the capitalized rent, this capitalized tribute, appears as the price of the land, and that the land may be sold like any other article of commerce. The buyer, therefore, does not feel that his title to the rent is obtained gratis, and without the labor, the risk, and the spirit of enterprise of the capitalist, but rather that he has paid for it with an equivalent. To the buyer, as we have previously remarked, the rent appears merely as interest on the capital, with which he has bought the land and consequently his title to the rent. In the same way, the slave-holder considers a negro, whom he has bought, his property, not because slavery as such entitles him to that negro, but because he has acquired him just as he does any other commodity, by means of

sale and purchase, but the title itself is only transferred, not created by sale. The title must exist, before it can be sold, and a series of sales cannot create this title by repetition any more than one single sale can. It was created in the first place by the conditions of production. As soon as these have arrived at a point, where they must shed their skin, the material source of the title, justified economically and historically and arising from the process which creates the material requirements of life, falls to the ground, and with it all transactions based upon it. From the point of view of a higher economic form of society, the private ownership of the globe on the part of some individuals will appear quite as absurd as the private ownership of one man by another. Even a whole society, a nation, or even all societies together, are not the owners of the globe. They are only its possessors, its users, and they have to hand it down to the coming generations in an improved condition, like good fathers of families.

VI.XLVI.7

In the following analysis of the price of land we leave out of consideration all fluctuations of competition, all land speculation, and small landed property, in which the land is the principal instrument of the producers and must, therefore, be bought by them at any price.
VI.XLVI.8

I. The price of land may rise, although the rent may not rise with it. This may take place,

1) by a mere fall of the rate of interest, which may cause the rent to be sold more dearly, so that the capitalized rent, the price of land rises;

2) because the interest of the capital incorporated in the land rises.

VI.XLVI.9

II. The price of land may rise, because the rent increases.
VI.XLVI.10

The rent may increase, because the price of the product of the land rises, in which case the rate of differential rent always rises, whether the rent upon the worst cultivated soil be large, small or nonexistent. But by the rate we mean the ratio of that portion of surplus-value, which is converted into rent, to the invested capital, which produces the product of the soil. This differs from the ratio of the surplus product to the total product, for the total product does not comprise the entire invested capital, namely not the fixed capital, which continues to exist by the side of the product. But it includes the fact that upon the soils carrying a differential rent an increasing portion of the product is converted into an overplus of a surplus product. Upon

the worst soil the increase in the price of the product of the soil first creates a rent and consequently a price of land.
VI.XLVI.11

But the rent may also increase without a rise in the price of the product of the soil. This price may remain unaltered, or may even decrease.
VI.XLVI.12

If the price remains constant, the rent can grow only (aside from monopoly prices) because, on the one hand, the same amount of capital remains invested in the older lands, while new lands of a better quality are cultivated, which, however, suffice only to cover the increased demand, so that the regulating market price remains unchanged. In this case the price of the old lands does not rise, but the price of the newly cultivated lands rises above that of the older lands.
VI.XLVI.13

Or, on the other hand, the rent rises because the mass of the capital exploiting the land increases, while the relative productivity and the market price remain the same. Although the rent remains the same in this case, compared to the invested capital, still its mass, for instance, may be doubled, because the capital itself has doubled. Since no fall in the price has occurred, the second investment of capital yields a

surplus profit as well as the first, and it likewise is converted into rent after the expiration of the lease. The mass of the rent rises here, because the mass of capital producing a rent increases. The contention that different investments of capital in succession upon the same piece of land can produce a rent only to the extent that their yield is unequal, so that a differential rent arises, amounts to the contention that when two capitals of 1,000 pounds sterling each are invested upon fields of equal productivity, only one of them can produce a rent, although these fields belong to the better class of soil, which produces a differential rent. (The mass of the rental, the total rent of a certain country, grows therefore with the mass of capital invested, although the price of the individual pieces of land, or the rate of rent, or the mass of rent upon the individual pieces of land, does not necessarily increase; the mass of the rental grows in this case with the extension of cultivation over a wider area. This may even be combined with a fall of the rent upon the individual holdings.) On the other hand, this contention would lead to another, to the effect that the investment of capital upon two different pieces of land side by side follows different laws than the successive investment of capital upon the same piece of land, whereas differential rent is precisely derived from the identity of the law in both cases, that is, from the increased productivity of investments of capital either upon the same field or upon different fields. The only modification which exists here and is overlooked is that successive investments of capital, when invested upon different pieces of land, meet the barrier

of private ownership of land, which is not the case with successive investments of capital upon the same piece of land. This accounts for the opposite effects, by which these two forms of investments keep each other in check in practice. Whatever difference appears here is not due to capital. If the composition of the capital remains the same, and with it the rate of surplus-value, then the rate of profit remains unaltered, so that the mass of profits is doubled when the capital is doubled. In like manner the rate of rent remains the same under the conditions assumed by us. If a capital of 1,000 pounds sterling produces a rent of x, then a capital of 2,000 pounds sterling, under the assumed conditions, produces a rent of 2 x. But calculated with reference to the area of land, which has remained unaltered, since the doubled capital works upon the same field, according to our assumption, the level of the rent has risen together with its mass. The same acre, which brought a rent of 2 pounds sterling, now brings 4 pounds sterling.*135
VI.XLVI.14

The relation of a portion of the surplus-value, of money rent‘for money is the independent expression of value‘to the land is in itself absurd and irrational. For the magnitudes, which are here measured by one another, are incommensurable, a certain use-value, a piece of land of so and so many square feet on the one hand, and of so much value, especially surplus-value, on the other. This expresses in fact nothing else but that, under the existing conditions, the ownership

of so and so many square feet of land enables the landowner to catch a certain quantity of unpaid labor, which capital wallowing in square feet like a hog in potatoes has realized [The manuscript here has in brackets, but crossed out, the name "Liebig."] But on first sight the expression is the same as though some one were to speak of the relation of a five-pound note to the diameter of the earth. However, the reconciliation of the irrational forms, in which certain economic conditions appear and assert themselves in practice, does not concern the active agents of these relations in their every day life. And as they are accustomed to moving about in them, they do not find anything strange about them. A complete contradiction has not the least mystery for them, They are as much at home among the manifestations which, separated from their internal connections and isolated by themselves, seem absurd, as a fish in the water. The same thing that Hegel says with reference to certain mathematical formulæ applies here. The thing which seems irrational to ordinary common sense is rational, and what seems rational to it is irrational.
VI.XLVI.15

When considered in connection with the land area itself, a rise in the mass of the rent expresses itself in the same way that a rise in the rate of the rent does, and this accounts for the embarrassment caused to some thinkers when the conditions, which would explain the one case, are absent in the other.
VI.XLVI.16

Finally, the price of land may also rise, even when the price of the products of the soil decreases.
VI.XLVI.17

In this case, the differential rent and with it the price of land of the better classes may have risen, owing to further differentiations. Or, if this should not be the case, the price of the products of the soil may have fallen through a greater productivity of labor, but in such a way that the increased productivity more than balances this. Let us assume that one quarter cost 60 shillings. Now, if the same acre, with the same capital, should produce two quarters instead of one, and the price of one quarter should fall to 40 shillings, then two quarters would cost 80 shillings, so that the value of the product of the same capital upon the same acre would have risen by one-third, although the price per quarter would have fallen by one-third. How this is possible without selling the product above its price of production or above its value, has been shown in the analysis of differential rent. As a matter of fact it is possible only in two ways. Either some bad soil is placed outside of competition, but the price of the better soil increases with the increase of differential rent, owing to the fact that the general improvement affects the various kinds of soil differently. Or, the same price of production (and the same value, in case absolute rent should be paid) expresses itself upon the worst soil through a larger mass of products, when the productivity of labor has

become greater. The product represents the same value as before, but the price of its aliquot parts has fallen, while their number has increased. This is impossible, when the same capital has been employed; for in this case the same value always expresses itself through any portion of the product. It is possible, on the other hand, when additional capital has been used for gypsum, guano, etc., in short for improvements which extend their effects over several years. The premise is that the price of the individual quarter falls, but not to the same extent that the number of quarters increases.
VI.XLVI.18

III. These different conditions under which rent may rise and with it the price of land in general, or of particular kinds of land, may partly exist side by side and compete, or the one may exclude the other, so that they act alternately. But it follows from the foregoing that it will not do to conclude offhand that a rise in the price of land signifies also a rise of rent, or that a rise of rent, which always carries with it a rise in the price of land, also signifies a rise in the price of the products of the land.*136

VI.XLVI.19

Instead of tracing to their source the natural causes which lead to an exhaustion of the soil, and which, by the way, were unknown to all economists who have written anything on differential rent, owing to

the condition of agricultural chemistry in their day, the shallow conception has been advanced, that any amount of capital cannot be invested in a limited space of land. For instance, the "Westminister Review" maintained against Richard Jones, that all England could not be fed by cultivating Soho Square. If this is considered a special disadvantage of agriculture, it is precisely the opposite which is true. It is possible to invest capital successively with good results, because the soil itself serves as a means of production, which is not the case with a factory, or is true of it only to a limited extent, since there the land serves only as a basis, as a space, as a foundation for operations upon a certain area. It is true that, compared to scattered handicrafts, great industries may concentrate large productive plants in a small space. But even so, a definite space is always required at any stage of development, and the building of high structures has its practical limits. Beyond these limits any expansion of production demands also an extension of the land area. The fixed capital invested in machinery, etc., does not improve through use, but on the contrary, it wears out. New inventions may, indeed permit some improvement in this respect, but with any given development of the productive power the machine will always deteriorate. If the productive power is rapidly developed, the entire old machinery must be replaced by a better one, so that the old is lost. But the soil, if properly treated, improves all the time. The advantage of the soil is that successive investments of capital may bring gains without losing the

older ones, and this implies the possibility of differences in the yields of these successive investments of capital.

Notes for this chapter

132.
Laing, Newman
133.
Crowlington Strike. Engels, The Condition of the Working Class In England, page 256, Swan Sonnenschein edition
134.
The paving of the London streets has enabled the proprietors of some naked rocks on the Scotch coast to draw a rent out of formerly absolutely useless stone soil. Adam Smith, Book I, Chapter XI, 2.
135.
It is one of the merits of Rodbertus whose important work on rent we shall discuss in volume IV ("Theories of Surplus-Value," volume II, Part I), to have enlarged upon this point. He commits the mistake, however, to assume, in the first place, that in the case of capital the increase in profits is always expressed by an increase of capital, so that the ratio remains the same, when the mass of the profits increase. But this is an error, since the rate of profit may increase when the composition of the capital is changed, even if the exploitation of labor remains the same, just because the proportional value of the constant portion of capital, compared to its variable

portion, may fall. In the second place he commits the mistake of dealing with the ratio of the money rent to a quantitatively limited piece of land, for instance to an acre, as though it had been the general assumption of classic economics in its analysis of the rise or fall of rent. This, again, is wrong. Classic economics always treats the rate of rent, so far as it considers rent in its natural form, with reference to the product, and so far as it considers rent as money rent, with reference to the advanced capital, because these are in fact its rational expressions.

136.

Concerning a fall in the price of land as a fact when the rent rises, see Passy.

Part VI,

Volume III Chapter XLVII. GENESIS OF CAPITALIST GROUND-RENT.

I. Introductory Remarks.

VI.XLVII.1

WE must be clear in our minds about the real difficulty in the analysis of ground-rent from the point of view of modern economics, to the extent that it is a theoretical expression of the capitalist mode of

production. Even many of the more modern writers have not grasped this yet, as is shown by every renewed attempt to find a "new" explanation of ground-rent. The novelty consists almost always in a relapse into long outgrown conceptions. The difficulty is not to explain the surplus product and the surplus-value produced by agricultural capital. This question is solved by the general analysis of the surplus-value produced by all productive capital, no matter in what sphere it may be invested. The difficulty consists rather in demonstrating the source of the surplus over and above the general surplus-value paid by capital invested in the soil to the landlord in the form of rent after the general surplus-value has been distributed among the various capitals by means of the average profit, in other words, after the various capitals have shared in the total surplus-value produced by the social capital in all spheres of production in proportion to their relative size. Quite aside from the practical motives, which urged the modern economists as spokesmen of the industrial capitalists against the landlords to investigate this question, motives which we shall indicate more clearly in the chapter on the history of ground-rent, the question was of paramount interest for them as a theory. To admit that the rising of rent for capital invested in agriculture was due to some particular effect of the sphere of investment, to peculiar qualities of the land itself, was equivalent to giving up the conception of value as such, equivalent to abandoning all attempts at a scientific understanding of this field. Merely the simple observation that the rent is paid out of the price of the products of the soil, a thing which

takes place even where rent is paid in kind, provided that the tenant is to get his price of production out of the land, showed the absurdity of the attempt to explain the excess of this price over the ordinary price of production, in other words, to explain the relative dearness of the products of agriculture out of the excess of the natural productivity of agricultural industry over the productivity of the other lines of industry. For the reverse is true. The more productive labor is, the cheaper is every aliquot part of its product, because the mass of use-values is so much greater, in which the same quantity of labor and with it the same value is incorporated.
VI.XLVII.2

The entire difficulty in the analysis of rent, therefore, consists in the explanation of the excess of agricultural profit over the average profit. It is not a question of surplus-value as such, but of the peculiar surplus of surplus-value found in this sphere of production, not a question of the "net product," but of the excess of this net product over the net product of the other lines of industry. The average profit itself is a product, formed under very definite historical conditions of production by the movement of the process of social life, a product which requires very far-reaching interrelations, as we have seen. In order that we may be able to speak at all of a surplus over the average profit, this average profit itself must already exist as a standard and as a regulator of production, such as it is under capitalist production. For this reason there can be no such thing as a

rent in the modern sense, a rent consisting of a surplus over the average profit, over and above the proportional share of each individual capital in the total surplus-value produced by the entire social capital, so long as capital does not perform the function of enforcing all surplus-labor and appropriating at first hand all surplus-value, so long as capital has not yet brought under its control the social labor, or has done so only sporadically. It shows the naiveté of a man like Passy (see further along) that he speaks of a rent, a surplus over the profit, in primitive society, a surplus over and above a historically defined form of surplus-value, which, according to Passy, might almost exist without any society.
VI.XLVII.3

For the older economists, who make the first beginning in an analysis of the capitalist mode of production, which was still undeveloped in their day, the analysis of rent either offers no difficulty, or a difficulty of another sort. Petty, Cantillon, and in general the writers who are closer to feudal times, assume that ground-rent is the normal form of surplus-value, whereas profit to them is still vaguely combined with wages, or at best looks to them like a portion of surplus-value filched by the capitalist from the landlord. These writers take their departure from a condition, in which the agricultural population still constitutes the overwhelming majority of the nation, and in which the landlord still appears as the individual, who appropriates at first hand the surplus labor of the direct producers through his land monopoly, in

which land therefore still appears as the chief requisite of production. These writers could not yet face the question, which, contrary to them, seeks to investigate from the point of view of capitalist production, how it happens that private ownership in land manages to wrest from capital a portion of the surplus-value produced by it at first hand (that is, filched by it from the direct producers) and first appropriated by it.
VI.XLVII.4

The physiocrats are troubled by a difficulty of another kind. Being in fact the first systematic spokesman of capital, they try to analyze the nature of surplus-value in general. This analysis coincides for them with the analysis of rent, the only form of surplus-value that exists for them. Therefore the rent-paying, or agricultural capital, is to them the only capital which produces any surplus-value, and the agricultural labor set in motion by it the only labor which makes for surplus-value, which quite correctly is considered the only productive labor from a capitalist point of view. They are right in considering the production of surplus-value as the essential thing. Aside from other merits set forth by us in the volume dealing with "Theories of Surplus-Value," they have the great merit of going back from the merchants' capital, which performs its functions wholly in the sphere of circulation, to the productive capital. In this they are opposed to the mercantile system, which, with its crude realism, constitutes the dominating vulgar economy of that time pushing the beginnings of scientific analysis by

Petty and his successors into the background by means of its practical interests. By the way, in this critique of the mercantile system we aim only at its conceptions of capital and surplus-value. We have already indicated previously that the monetary system correctly proclaims production for the world market and the transformation of the product into commodities, and thus into money, as the prerequisite and condition of capitalist production. In the further development of this system into the mercantile system, it is no longer the transformation of the value of commodities into money, but the production of surplus-value, which decides the point, but merely from the meaningless point of view of the sphere of circulation and with the understanding that this surplus-value must present itself as surplus money in the surplus of the balance of trade. The characteristic mark of the interested merchants and manufacturers of that time, which is adequate to the period of capitalist development represented by them, is found in the fact that their principal aim in the transformation of the feudal and agricultural societies into industrial ones and in the corresponding industrial struggle of the nations upon the world market is a hastened development of capital, which is not supposed to take place in the so-called natural way, but by means of forced measures. It makes a tremendous difference, whether the national capital is gradually and slowly transformed into industrial capital, or whether the time of this development is hastened by means of a tax which they impose through protective duties mainly upon the real estate owners, the middle class and small farmers, and the handicraftsmen, by the

accelerated expropriation of the independent direct producers, by a violently hastened accumulation and concentration of capitals, in short by a hastened introduction of the conditions of capitalist production. It makes at the same time an enormous difference in the capitalist and industrial exploitation of the natural powers of national production. Hence the national character of the mercantile system is not a mere phrase in the mouths of its spokesmen. Under the pretense of occupying themselves merely with the wealth of the nation and the resources of the state, they practically proclaim the interests of the capitalist class and the gathering of riches to be the ultimate end of the state, and so they proclaim bourgeois society against the old supernatural state. But at the same time they are conscious of the fact that the development of the interests of capital and of the capitalist class, of capitalist production, is the foundation of the national power and of the national preponderance in modern society. VI.XLVII.5

The physiocrats are, furthermore, correct in stating that the production of surplus-value, and with it all development of capital, has for its natural basis the productivity of agricultural labor. If human beings are not capable of producing by one day's labor more means of subsistence, which signifies in its strictest sense more products of agriculture, than every laborer needs for his own reproduction, if the daily expenditure of his entire labor-power suffices only to produce the means of subsistence indispensable for his own individual needs, then

there can be no mention of any surplus product nor of any surplus-value. A productivity of agricultural labor exceeding the individual requirements of the laborer is the basis of all societies, and is above all the basis of capitalist production, which separates a continually increasing portion of society from the production of the immediate requirements of life and transforms them into "free heads," as Steuart has it, making them available for exploitation in other spheres.
VI.XLVII.6

But what are we to say of more recent writers on economics, such as Daire, Passy, etc., who repeat the most primitive conceptions concerning the natural requirements of surplus labor and surplus-value in general, at a time when classic economy is in its declining years, or even on its deathbed, and who imagine that they are thus saying something new and convincing on ground-rent, after this ground-rent has long developed a peculiar form and has become a specific part of surplus-value?
VI.XLVII.7

It is precisely characteristic of vulgar economy that it repeats things which were new, original, deep and justified during a certain outgrown stage of development, at a time when they have become platitudinous, stale, false. In this way it confesses that it has not the slightest suspicion of the problems which used to occupy the attention of classic economy. It confounds them with questions that could be

posed only on a low level in the development of bourgeois society. It is the same with its restless and self-complacent rumination of the physiocratic phrases concerning free trade. These phrases have long lost all theoretical interest, no matter how much they may engage the practical attention of this or that modern state.
VI.XLVII.8

In natural economy, properly so-called, when no part of the agricultural product, or but a very insignificant part of it, enters into the process of circulation, or even but a relatively small portion of that part of the product which represents the revenue of the landlord, as it did in many Roman latifundiæ, or upon the villae of Charlemagne, or more or less during the entire Middle Ages (see Vincard, Histoire du Travail), the product and the surplus product of the large estates consists by no means purely of the products of agricultural labor. Domestic handicrafts and manufacturing labor, as side issues to agriculture, which forms the basis, is the prerequisite of that mode of production upon which natural economy rests, in European antiquity and Middle Ages as well as in the Indian commune of the present day, in which the traditional organization has not yet been destroyed. The capitalist mode of production completely dissolves this connection. This process may be studied on a large scale during the last third of the 18th century, in England. Brains that had grown up in more or less semi-feudal societies, for instance Herrenschwand, still consider this separation of manufacture from agriculture as a

foolhardy social adventure, as an unthinkably risky mode of existence, even as late as the close of the 18th century. And even in the agricultural societies of antiquity, which show the greatest analogy to capitalist agriculture, namely Carthage and Rome, the similiarity with plantation management is greater than with that form which really corresponds to the capitalist mode of exploitation.*137
VI.XLVII.9

There existed at one time a formal analogy, which, however, appears as a deception in all essential points to a man familiar with the capitalist mode of production, and who does not, like Mr. Mommsen,*138 discover a capitalist mode of production in every monetary economy. This formal analogy did not exist at all in continental Italy during antiquity, but at best only in Sicily, because this island served as an agricultural tributary for Rome, so that its agriculture was chiefly aimed at export. It was there that tenants of the modern kind existed.
VI.XLVII.10

An incorrect conception of the nature of rent is based upon the fact that rent in a natural form, either as tithes to the church, or as a curiosity perpetuated by old contracts, has dragged itself into modern times out of the natural economy of feudal days, quite contrary to the conditions of the capitalist mode of production. This creates the impression that rent does not arise from the price of the agricultural

product, but from its mass, not from social conditions, but from the soil. We have shown previously that a surplus product, representing a mere increase in the mass of products, does not constitute any surplus-value, although surplus-value represents itself in a surplus product. A surplus product may represent a minus in value. Otherwise the cotton industry of 1860, compared to that of 1840, would represent an enormous surplus-value, whereas on the contrary the price of the yarn has fallen. The rent may increase enormously through a succession of crop failures, because the price of cereals rises, although this surplus-value is represented by an absolutely decreasing mass of dearer wheat. Vice versa, the rent may fall through a succession of fertile years, because the price falls, although the fallen rent is represented by a greater mass of cheaper wheat. VI.XLVII.11

With regard to rent in kind it should be noted that it is a mere tradition dragged over from an outgrown mode of production and eking out an existence as a ruin. Its contradiction to the capitalist mode of production is shown by the fact that it disappeared from private contracts of its own accord, and that it was shaken off by force as an inconsistency in such instances as the church tithes in England, where legislation was able to step in. Furthermore, where rent in kind continued to exist on the basis of capitalist production, it was nothing else, and could be nothing else, but an expression of money rent in medieval garb. For instance, wheat is quoted at 40

shillings per quarter. One portion of this wheat has to reproduce the wages contained in it, and must be sold in order to be available for renewed expenditure. Another portion must be sold in order to pay its share of the taxes. Seeds and even a part of the manure enter as commodities into the process of reproduction, wherever the capitalist mode of production and division of labor are developed, and they must be bought for the purposes of reproduction. Therefore another portion of this quarter must be sold, in order to get money for these things. To the extent that they do not have to be bought as actual commodities, but are taken in their natural form out of the product, in order to enter once more as means of production into its reproduction ‘which is done, not only in agriculture, but in many other lines of production which create constant capital‘they figure in the accounts as money of account and are thus deducted as component parts of the cost-price. The wear and tear of machinery, and of fixed capital in general, must be made good in money. And finally comes the profit, which is calculated on the basis of this sum of costs expressed either in real or in accounting money. This profit is represented by a definite portion of the gross product, which is determined by its price. The portion which then remains is the rent. If the rent in kind stipulated by contract is greater than this remainder determined by the price, then it is not a rent, but a deduction from the profit. On account of this possibility alone rent in kind is an old form, to the extent that it does not follow the price of the product, but may amount to more or less than the real rent, so that it may not only contain a deduction

from the profit, but also from elements required for the reproduction of the capital. In fact, this rent in kind, so far as it is a rent, not merely in name but in essence, is exclusively determined by the excess of the price of the product over, its cost of production. Only it assumes this variable magnitude to be a constant one. But it is such a comforting reflection that the natural product should suffice, in the first place, to maintain the laborer, in the second place, to leave for the capitalist tenant more food than he needs, and finally, that the remainder should form a natural rent. The same fancy is indulged in when a manufacturer of cotton goods produces 200,000 yards of them. These yards are supposed to suffice for the purpose of clothing his laborers, his wife and all his offspring, together with himself abundantly, to leave over some cotton for sale, and besides to pay an enormous rent with cotton goods. The matter is so simple! Deduct the cost of production from 200,000 yards of cotton goods, and a surplus must remain for rent. But it is indeed a naïve conception, to deduct the cost of production of, say, 10,000 pounds sterling from 200,000 yards of cotton, without knowing the selling price, to deduct money from cotton goods, to deduct from a natural use-value an exchange-value, and thus to determine the surplus of yards of cotton goods over pounds of sterling. It is worse than the squaring of the circle, which is at least based upon the conception that there is a boundary at which straight lines and curves flow imperceptibly into each other. But such is the recipe of Mr. Passy. Deduct money from cotton goods, before the cotton goods have been converted into money, either in

your head or in reality! What remains is the rent, which, however, is to be grasped tangibly (see for instance, Karl Arnd) and not by deviltries of sophistry. The entire restoration of rent in kind amounts really to this foolishness, to this deduction of the price of production from so and so many bushels of wheat, the subtraction of a sum of money from a cubic measure.

II. Labor Rent.

VI.XLVII.12

If we observe ground-rent in its simplest form, that of labor rent, which means that the direct producer cultivates during a part of the week, with instruments of labor (plow, cattle, etc.), actually or legally belonging to him, the soil owned by him in fact, and works during the remaining days upon the estate of the feudal lord, without any compensation from the feudal lord, the proposition is quite clear, for in this case rent and surplus-value are identical. The rent, not the profit, is here the form through which the unpaid surplus labor expresses itself. To what extent the laborer, the self-sustaining serf, can here secure for himself a surplus above his indispensable necessities of life, a surplus above the thing which we would call wages under the capitalist mode of production, depends, other circumstances remaining unchanged, upon the proportion, in which his labor time is divided into labor time for himself and forced labor time

for his feudal lord. This surplus above the indispensable requirements of life, the germ of that which appears as profit under the capitalist mode of production, is therefore wholly determined by the size of the ground-rent, which in this case not only is unpaid surplus labor, but also appears as such. It is unpaid surplus labor for the "owner" of the means of production, which here coincide with the land, and so far as they differ from it, are mere accessories to it. That the product of the laboring serf must suffice to reproduce both his subsistence and his requirements of production, is a fact which remains the same under all modes of production. For it is not a result of its specific form, but a natural requisite of all continuous and reproductive labor, of any continued production, which is always a reproduction, including the reproduction of its own labor conditions. It is furthermore evident that in all forms, in which the direct laborer remains the "possessor" of the means of production and labor conditions of his own means of subsistence, the property relation must at the same time assert itself as a direct relation between rulers and servants, so that the direct producer is not free. This is a lack of freedom which may be modified from serfdom with forced labor to the point of a mere tributary relation. The direct producer, according to our assumption, is here in possession of his own means of production, of the material labor conditions required for the realization of his labor and the production of his means of subsistence. He carries on his agriculture and the rural house industries connected with it as an independent producer. This independence is not abolished by the fact that these small

farmers may form among themselves a more or less natural commune in production, as they do in India, since it is here merely a question of independence from the nominal lord of the soil. Under such conditions the surplus labor for the nominal owner of the land cannot be filched from them by any economic measures, but must be forced from them by other measures, whatever may be the form assumed by them.*139
VI.XLVII.13

This is different from slave or plantation economy, in that the slave works with conditions of labor belonging to another. He does not work as an independent producer. This requires conditions of personal dependence, a lack of personal freedom, no matter to what extent, a bondage to the soil as its accessory, a serfdom in the strict meaning of the word. If the direct producers are not under the sovereignty of a private landlord, but rather under that of a state which stands over them as their direct landlord and sovereign, then rent and taxes coincide, or rather, there is no tax which differs from this form of ground-rent. Under these circumstances the subject need not be politically or economically under any harder pressure than that common to all subjection to that state. The state is then the supreme landlord. The sovereignty consists here in the ownership of land concentrated on a national scale. But, on the other hand, no private ownership of land exists, although there is both private and common possession and use of land.

VI.XLVII.14

The specific economic form, in which unpaid surplus labor is pumped out of the direct producers, determines the relation of rulers and ruled, as it grows immediately out of production itself and reacts upon it as a determining element. Upon this is founded the entire formation of the economic community which grows up out of the conditions of production itself, and this also determines its specific political shape. It is always the direct relation of the owners of the conditions of production to the direct producers, which reveals the innermost secret, the hidden foundation of the entire social construction, and with it of the political form of the relations between sovereignty and dependence, in short, of the corresponding form of the state. The form of this relation between rulers and ruled naturally corresponds always with a definite stage in the development of the methods of labor and of its productive social power. This does not prevent the same economic basis from showing infinite variations and gradations in its appearance, even though its principal conditions are everywhere the same. This is due to innumerable outside circumstances, natural environment, race peculiarities, outside historical influences, and so forth, all of which must be ascertained by careful analysis.
VI.XLVII.15

So much is evident in the case of labor rent, the simplest and most primitive form of rent: The rent is here the original form of surplus-

value and coincides with it. Furthermore, the identity of surplus-value with unpaid labor of others does not need to be demonstrated by any analysis in this case, because it still exists in its visible, palpable form, for the labor of the direct producer for himself is still separated by space and time from his labor for the landlord, and this last labor appears clearly in the brutal form of forced labor for another. In the same way the "quality" of the soil to produce a rent is here reduced to a tangibly open secret, for the nature which here furnishes the rent also includes the human labor-power bound to the soil, and the property relation which compels the owner of labor-power to exert this quality and to keep it busy beyond the measure required for the satisfaction of his own material needs. The rent consists directly in the appropriation, by the landlord, of this surplus expenditure of labor-power. For the direct producer pays no other rent. Here, where surplus-value and rent are not only identical, but where surplus-value obviously has the form of surplus labor, the natural conditions, or limits, of rent lie on the surface, because those of surplus-value do. The direct producer must, 1), possess enough labor-power, and 2), the natural conditions of his labor, which means in the first place the soil cultivated by him, must be productive enough, in one word, the natural productivity of his labor must be so great that the possibility of some surplus labor over and above that required for the satisfaction of his own needs shall remain. It is not this possibility which creates the rent. The rent is not created until compulsion makes a reality of this possibility. But the possibility itself is

conditioned upon subjective and objective facts of nature. And there is nothing mysterious about it. If the labor-power is small, and the natural conditions of labor poor, then the surplus labor is small, but so are in that case the wants of the producers on one side and the relative numbers of the exploiters of surplus labor on the other, and so is finally the surplus product, by which this little productive surplus labor is represented for those few exploiting land owners.
VI.XLVII.16

Finally, labor rent implies in itself that, all other circumstances remaining equal, it will depend wholly upon the relative amount of surplus labor, or forced labor, to what extent the direct producer shall be enabled to improve his own condition, to acquire wealth, to produce a surplus over and above his indispensable means of subsistence, or, if we wish to anticipate the capitalist mode of expression, whether he shall be able to produce a profit for himself, and how much of a profit, meaning a surplus over the wages produced by himself. The rent is here the normal, all absorbing, one might say legitimate, form of surplus labor. So far from being a surplus over the profit, which means in this case in excess of any other surplus over the wages, it is rather the amount of profit, and even its very existence, which depends, other circumstances being equal, upon the amount of rent, or upon the forced surplus labor to be surrendered to the landlord.
VI.XLVII.17

Some historians have expressed astonishment that it should be possible for the forced laborers, or serfs, to acquire any independent property, or relatively speaking, wealth, under such circumstances, since the direct producer is not an owner, but only a possessor, and since all his surplus labor belongs legally to the landlord. However, it is evident that tradition must play a very powerful role in the primitive and undeveloped circumstances, upon which this relation in social production and the corresponding mode of production are based. It is furthermore clear that here as everywhere else it is in the interest of the ruling section of society to sanction the existing order as a law and to perpetuate its habitually and traditionally fixed limits as legal ones. Aside from all other matters, this comes about of itself in proportion as the continuous reproduction of the foundation of the existing order and of the relations corresponding to it gradually assume a regulated and orderly form. And such regulation and order are themselves indispensable elements of any mode of production, provided that it is to assume social firmness and an independence from mere accident and arbitrariness. It is just through them that society is rendered more firm and emancipated relatively from mere arbitrariness and mere accident. Society assumes this form by the repeated reproduction of the same mode of production, where the process of production stagnates and with it the corresponding social relations. If this continues for some time, this order fortifies itself by custom and tradition and is finally sanctioned as an expressed law.

Since the form of this surplus labor, of forced labor, rests upon the imperfect development of all productive powers of society, and upon the crudeness of the methods of labor itself, it will naturally absorb a much smaller portion, relatively, of the total labor of the direct producers than under developed modes of production, particularly under the capitalist mode of production. Take it, for instance, that the forced labor for the landlord originally amounted to two days per week. These two days of forced labor are fixed, are a constant magnitude, legally regulated by laws of usage or written laws. But the productivity of the remaining days of the week, over which the direct producer has independent control, is a variable magnitude, which must develop in the course of his experience, together with the new wants he acquires, together with the expansion of the market for his product, together with the increasing security which guarantees independence for this portion of his labor-power. These things will spur him on to a greater exertion of his labor-power, and it must not be forgotten that the employment of his labor-power is by no means confined to agriculture, but includes rural house industry. The possibility of a certain economic development, depending, of course, upon the favor of circumstances, upon inborn race characteristics, etc., is open in this case.

III. Rent in Kind.

VI.XLVII.18

The transformation of labor rent into rent in kind does not change anything in the nature of rent, economically speaking. This nature, in the forms of rent considered here, is such that rent is the sole prevailing and normal form of surplus labor, or surplus-value. This, again, expresses the fact that rent is the only surplus labor, or the only surplus product which the direct producer, being in possession of the labor conditions needed for his own reproduction, must give up to the owner of the land, which under this state of things is the one condition of labor embracing everything. And furthermore it expresses the fact that land is the only labor condition, which stands opposed to the direct producer as a property independent of him and held in the hands of another, being personified by the landlord. To the extent that rent in kind is the prevailing and dominant form of ground-rent, it is always more or less in the company of survivals of the preceding form, that is of rent paid directly by labor, forced labor, no matter whether the landlord be a private person or the state. Rent in kind requires a higher state of civilization for the direct producer, a higher stage of development of his labor and of society in general. And it is distinguished from the preceding form by the fact that the surplus labor is no longer performed naturally, is no longer performed under the direct supervision and compulsion of the landlord or of his representatives. The direct producer is rather driven by the force of circumstances than by direct coercion, rather by legal enactment than by the whip, to perform surplus labor on his own responsibility.

Surplus production, in the sense of a production beyond the indispensable needs of the direct producer, and within the field of production actually in his own possession, upon the soil exploited by himself and no longer upon the lord's estate outside of his own land, has become a matter of fact rule here. In this relation the direct producer is more or less master of the employment of his whole labor time, although a part of this labor time, at first practically the entire surplus portion of it, belongs to the landlord without any compensation. Only, the landlord does not get this surplus labor any more in its natural form, but rather in the natural form of the product in which it is realized. The burdensome interruption by the labor for the landlord (see Volume I, chapter X, 2, Manufacturer and Boyard), which disturbs the reproduction of the serf more or less, according to the way in which forced labor is regulated, disappears, wherever rent in kind has its pure form, or at least it is reduced to a few short intervals during the year, which demand a continuation of rent by forced labor by the side of rent in kind. The labor of the producer for himself and his labor for the landlord are no longer palpably separated by time and space. This rent in kind, in its pure form, while it may drag itself along sporadically into more highly developed modes of production and conditions of production, nevertheless requires for its existence a natural economy, that is an economy in which the conditions of production are either wholly or for the overwhelming part produced by the system itself in such a way that they are reproduced directly out of its gross product. It furthermore requires the

combination of domestic rural industry with agriculture. The surplus product, which forms the rent, is the product of this combined agricultural and industrial family labor, no matter whether rent in kind contains more or less of the industrial product, as it often does in the middle ages, or whether it is paid only in the form of actual products of the soil. In this form of rent it is by no means necessary that rent in kind, which represents the surplus labor, should fully exhaust the entire surplus labor of the rural family. Compared to labor rent, the producer rather has more elbow room to gain time for some surplus labor whose product shall belong to himself, as does that of the labor which produces his indispensable means of subsistence. This form will also give rise to greater differences in the economic situation of the individual direct producers. At least the possibility for such a differentiation exists, and so does the possibility that the direct producer may have acquired the means to exploit other laborers for himself, but this does not concern us here, since we are dealing with rent in its pure form. Neither can be pay any heed to the endless variety of combinations, by which the various forms of rent may be united, adulterated and amalgamated.
VI.XLVII.19

Owing to the peculiar form of rent in kind, by which it is bound to a definite kind of products and of production, owing furthermore to the indispensable combination of agriculture and domestic industry attached to it, also to the almost complete selfsufficiency in which the

peasant family supports itself and to its independence from markets and from the movement of production and history in the social spheres outside of it, in short owing to the character of natural economy in general this form is quite suitable for becoming the basis of stationary conditions of society, such as we see in Asia. Here, as previously in the form of labor rent, ground-rent is the normal form of surplus-value, and thus of surplus labor, that is of the entire surplus labor performed without any equivalent by the direct producer for the benefit of the owner of his essential means of production, the land, a labor which is still performed under compulsion, although no longer in the old brutal form. The profit, if, falsely anticipating, we may so call that portion of the direct producer's labor which exceeds his necessary labor and which he keeps for himself, has so little to do with determining the rent in kind, that this profit rather grows up behind the back of the rent and finds its natural limit in the size of the rent in kind. This rent may assume dimensions which seriously threaten the reproduction of the conditions of labor, of the means of production. It may render an expansion of production more or less impossible, and grind the direct producers down to the physical minimum of means of subsistence. This is particularly the case, when this form is met and exploited by a conquering industrial nation, as India is by the English.

IV. Money Rent.

VI.XLVII.20

By money rent we mean here‘for the sake of distinction from the industrial and commercial ground-rent resting upon the capitalist mode of production, which is but a surplus over the average profit‘that ground-rent which arises from a mere change of form of rent in kind, just as this rent in kind, in its turn, is but a modification of labor rent. Under money rent, the direct producer no longer turns over the product, but its price, to the landlord (who may be either the state or a private individual). A surplus of products in their natural form is no longer sufficient; it must be converted from its natural form into money. Although the direct producer still continues to produce at least the greater part of his means of subsistence himself, a certain portion of this product must now be converted into commodities, must be produced as commodities. The character of the entire mode of production is thus more or less changed. It loses its independence, it remains no longer detached from the social connections. The proportion of the cost of production, which now is more and more complicated with the expenditure of money, now becomes a determining factor. At any rate, the excess of that portion of the gross product, which must be converted into money, over that portion, which has to serve either as means of reproduction or as means of direct subsistence, assumes a determining role. However, the basis of this rent remains the same as that of the rent in kind, from which it starts, although money rent likewise approaches its dissolution. The direct producer still is the possessor of the land, either by inheritance

or by some other traditional right, and he has to perform for his landlord, who is the owner of the land, of his most essential instrument of production, forced surplus labor, that is, unpaid labor for which no equivalent is returned, and this forced surplus labor is now paid in money obtained by the sale of the surplus product. The property in requirements of labor separate from the land, such as agricultural implements and other movable things, is transformed into the property of the direct producer even under the preceding form of rent, first in fact, then legally, and this is the condition even more under money rent. The transformation of rent in kind into money rent, taking place first sporadically, then on a more or less national scale, requires a considerable development of commerce, of city industries, of the production of commodities in general, and with them of the circulation of money. It furthermore requires that products should have a market price, and that they are sold more or less approximately at their values, which need not necessarily be the case under the preceding forms. In the East of Europe we may still see in a certain measure this transformation with our own eyes. How little it can be carried through without a certain development of the social productivity of labor, is proved by various unsuccessful attempts to carry it through under the Roman emperors, and by relapses into rent in kind after the attempt had been made to convert at least that portion of rent in kind into a money rent which had to be paid as a state tax. The same difficulties of transition are shown, for instance,

by the prerevolutionary time in France, when money rent was combined and adulterated by survivals of the forms preceding it.
VI.XLVII.21

Money rent, as a converted form of rent in kind and as an antagonist of rent in kind, is the last form, and the dissolving form, of that form of ground-rent, which we have considered so far, namely of ground-rent, which we have considered so far, namely of ground-rent as the normal form of surplus-value and of the unpaid surplus labor to be performed for the owner of the means of production. In its pure form, this rent, like labor rent and rent in kind, does not represent any surplus above the profit. It absorbs the profit, as it is understood. To the extent that profit arises in fact as a separate portion of the surplus labor by the side of the rent, money rent as well as rent in its preceding forms still is the normal barrier of such embryonic profit, which can only develop in proportion as the possibility of exploitation grows, whether it be the producer's own surplus labor or the surplus labor of another, which remains after the surplus represented by money rent has been paid. If any profit actually arises along with this rent, this profit is not a barrier of rent, but the rent is rather a barrier of this profit. However, we repeat that money rent is at the same time the disappearing form of the rent which we have considered so far, of that rent which is identical with surplus-value and surplus labor, of ground-rent as the normal and prevailing form of surplus-value.

VI.XLVII.22

In its further development money rent must lead‘aside from all intermediate forms, such as that of the small peasant who is a tenant ‘either to the transformation of land into independent peasants' property, or into the form corresponding to the capitalist mode of production, that is, to rent paid by the capitalist tenant.
VI.XLVII.23

With the coming of money rent the traditional and customary relation between the landlord and the subject tillers of the soil, who possess and cultivate a part of the land, is turned into a pure money relation fixed by the rules of positive law. The cultivating possessor thus becomes virtually a mere tenant. This transformation serves on the one hand, provided that other general conditions of production permit such a thing, to expropriate gradually the old peasant possessors and to put in their place capitalist tenants. On the other hand it leads to a release of the old possessors from their tributary relation by buying themselves free from their landlord, so that they become independent farmers and free owners of the land tilled by them. The transformation of rent in kind into money rent is not only necessarily accompanied, but even anticipated by the formation of a class of propertyless day laborers, who hire themselves out for wages. During the period of their rise, when this new class appears but sporadically, the custom necessarily develops among the better situated tributary

farmers of exploiting agricultural laborers for their own account, just as the wealthier serfs in feudal times used to employ serfs for their own benefit. In this way they gradually acquire the ability to accumulate a certain amount of wealth and to transform themselves even into future capitalists. The old selfemploying possessors of the land thus give rise among themselves to a nursery for capitalist tenants, whose development is conditioned upon the general development of capitalist production outside of the rural districts. This class grows very rapidly, when particularly favorable circumstances come to its aid, as they did in England in the 16th century, where the progressive depreciation of money made them rich, under the customary long leases, at the expense of the landlords.
VI.XLVII.24

Furthermore: As soon as rent assumes the form of money rent, and with it the relation between rent paying peasants and landlords becomes a relation fixed by contract‘a development which is not possible unless the world market, commerce and manufacture have reached a relatively high level‘the leasing of land to capitalists necessarily also puts in its appearance. These men, having stood outside of the rural barrier so far, now transfer to the country and to agriculture some capital acquired in the cities and with it the capitalist mode of production as developed in those cities, which implies the creation of the product in the form of a mere commodity and as a mere means of appropriating surplus-value. This form can become the

general rule only in those countries, which dominate the world market in the period of transition from the feudal to the capitalist mode of production. When the capitalist tenant steps between the landlord and the actually working tiller of the soil, all conditions have been dissolved, which arose from the old rural mode of production. The capitalist tenant becomes the actual commander of these agricultural laborers and the actual exploiter of their surplus labor, whereas the landlord has any direct relations only with this capitalist tenant, the relation being a mere money relation fixed by contract. This transforms also the nature of the rent, not merely in fact and accidentally, as it did sometimes even under the preceding forms, but normally, by transforming its acknowledged and prevailing mode. Instead of continuing as the normal form of surplus-value and surplus labor, it becomes a mere surplus of this surplus labor over that portion of it, which is appropriated by the exploiting capitalist in the form of profit. And now the total surplus labor, both profit and surplus above the profit, are extracted by him directly, appropriated in the form of the surplus product, and turned into money. It is only the surplus portion of the surplus-value extracted by him from the agricultural laborer by direct exploitation, by means of his capital, which he turns over to the landlord as rent. How much or how little he gives away to him depends, as a rule, upon the limits set by the average profit which is realized by the capital in the non-agricultural spheres of production, and by the non-agricultural prices of production regulated by this average profit. From a normal form of surplus-value

and surplus labor the rent has now transformed itself into a surplus peculiar to the agricultural sphere of production, exceeding that portion of the surplus labor, which is claimed at first hand by capital as its legitimate and normal share. Profit, instead of rent, has now become the normal form of surplus-value, and rent exists only as a form, not of surplus-value in general, but of one of its offshoots, called surplus profit, which assumes an independent existence only under very peculiar circumstances. It is not necessary to dwell any further upon the way in which this transformation is accompanied by a gradual transformation of the mode of production itself. This is shown by the mere fact that it is the normal thing for the capitalist tenant to produce the products of the soil as commodities, and that, while formerly only the surplus over his means of subsistence was converted into commodities, now but a relatively small part of these commodities is directly used as means of subsistence for him. It is no longer the land, but the capital, which has now brought under its direct sway and under its own productivity the labor of the agriculturalist.

VI.XLVII.25

The average profit and the price of production regulated by it are formed outside of the conditions of the rural country within the circles of city commerce and manufacture. The profit of the rent-paying farmers does not enter into it as a balancing element, for their relation to the landlord is not a capitalist one. To the extent that he

makes profits, that is, realizes a surplus above his necessary means of subsistence, either by his own labor or by the exploitation of other people's labor, it is done behind the back of the normal relationship. Other circumstances being equal, the size of this profit does not determine the rent, but on the contrary, it is determined by the limits set by the rent. The high rate of profit in the Middle Ages is not entirely due to the low composition of the capital, in which the variable capital, invested in wages, predominates. It is due also to the robbery committed against the land, the appropriation of a portion of the landlord's rent and of the income of his vassals. While the country exploits the town politically in the Middle Ages, wherever feudalism has not been broken down by an exceptional development of the towns, the town, on the other hand, everywhere and without exception exploits the land economically by its monopoly prices, its system of taxation, its guild organizations, its direct mercantile fraud and its usury.
VI.XLVII.26

One might imagine that the mere advent of the capitalist tenant in agricultural production would prove that the price of those products of the soil, which had always paid a rent in one form or another, must stand above the prices of production of manufacture, at least at the time of this advent. And this for the reason that the price of such products of the soil had reached the level of a monopoly price or that it had risen as high as the value of the products of the soil, and that

this value actually stood above the price of production regulated by the average profit. Unless this were so, the capitalist tenant could not very well realize first the average profit out of the price of these products, at the existing prices of the products of the soil, and then pay out of this same price a surplus above his profit in the form of rent. One might conclude from this that the average rate of profit, which guides the capitalist tenant in his contract with the landlord, had been formed without including the rent, and that as soon as this average rate of profit assumes a regulating part in agricultural production it finds this surplus ready at hand and turns it over to the landlord. It is in this traditional manner that, for instance, Rodbertus explains this matter.
VI.XLVII.27

But several points must be considered here.
VI.XLVII.28

1) This advent of capital as an independent and leading power in agriculture does not take place generally all at once, but gradually and separately in various lines of production. It seizes at first, not agriculture proper, but such lines of production as cattle raising, especially sheep raising, whose principal product, wool, offers a steady surplus of the market price over the price of production during the rise of industry, and this is not balanced until later. This was the case in England during the 16th century.

VI.XLVII.29

2) Since this capitalist production appears at first but sporadically, nothing can be argued against the assumption, that it takes hold in the beginning only of such groups of land as are able, through their particular fertility, or their exceptionally favorable location, to pay a differential rent in the long run.
VI.XLVII.30

3) Even assuming that at the time of the advent of this mode of production, which indeed requires an increasing preponderance of the demand in the towns, the prices of the products of the soil stood higher than the price of production, as was doubtless the case during the last third of the 17th century in England, nevertheless, as soon as this mode of production will have worked its way somewhat out of the mere subordination of agriculture to capital, and as soon as the improvement of agriculture and the reduction of its cost of production, which accompany its development, will have taken place, the balance will be restored by a reaction, a fall in the price of the products of the soil, as happened in the first half of the 18th century in England.
VI.XLVII.31

In this traditional way, then, rent as a surplus above the average profit cannot be explained. Whatever may be the historical circumstances of the time in which rent appears at first, once that it

has taken root it cannot exist under any other modern conditions than those previously explained.
VI.XLVII.32

Finally, it should be noted in the transformation of rent in kind into money rent, that with it capitalized rent, or the price of land, and its salableness and sale become essential elements, and that with them not only the formerly rent-paying tenant may be transformed into an independent peasant proprietor, but also urban and other moneyed people may buy real estate, in order to lease them either to peasants or to capitalists and thus to enjoy rent in the form of interest on capital so invested; that, therefore, this likewise assists in the transformation of the former mode of exploitation, of the relation between the owner and the actual tiller of the land, and of the rent itself.

V. Share Farming (Metairie System) and Small Peasants' Property.

VI.XLVII.33

We have now arrived at the end of our line of development of ground-rent.
VI.XLVII.34

In all these forms of ground-rent, whether labor rent, rent in kind, or money rent (as a mere change of form of rent in kind), the rent-paying party is always supposed to be the actual tiller and possessor of the land, whose unpaid surplus labor passes directly into the hands of the landlord. Even in the last form, money rent‘to the extent that it is "pure," in other words, a mere change of form of rent in kind‘ this is not only possible, but actually takes place.
VI.XLVII.35

As a form of transition from the original form of rent to capitalist rent, we may consider the metairie system, or share farming, under which the manager (tenant) furnishes not only labor (his own or that of others), but also a portion of the first capital, and the landlord furnishes, aside from the land, another portion of the first capital (for instance cattle), and the product is divided between the tenant and the landlord according to definite shares, which differ in various countries. In this case, the tenant lacks the capital required for a thorough capitalist operation of agriculture. On the other hand, the share thus appropriated by the landlord has not the pure form of rent. It may actually include interest on the capital advanced by him and a surplus rent. It may also absorb practically all the surplus labor of the tenant, or leave to him a greater or smaller portion of this surplus labor. But the essential point is that rent no longer appears here as the normal form of surplus-value in general. On the one hand, the tenant, whether he employ his own labor or another's, is

supposed to have a claim upon a portion of the product, not in his capacity as a laborer, but as a possessor of a part of the instruments of labor, as his own capitalist. On the other hand, the landlord claims his share not exclusively in his capacity as the owner of the land, but also as a lender of capital.*140
VI.XLVII.36

A remainder of the old community in land, which had been preserved after the transition to independent peasant economy, for instance in Poland and Roumania, served there as a subterfuge for accomplishing a transition to the lower forms of ground-rent. A portion of the land belongs to the individual farmers and is tilled independently by them. Another portion is tilled collectively and creates a surplus product, which serves either for the payment of community expenses, or as a reserve in case of crop failures, etc. These last two parts of the surplus product, and finally the whole surplus product together with the land, upon which it has been grown, are gradually usurped by state officials and private individuals, and by this means the originally free peasant proprietors, whose obligation to till this land collectively is maintained, are transformed into vassals, who are compelled to perform forced labor or pay rent in kind, while the usurpers are transformed into owners, not only of the stolen community lands, but of the lands of the peasants themselves.
VI.XLVII.37

We need not dwell upon actual slave economy (which likewise passes through a development from the patriarchal system, working pre-eminently for home use, to the plantation system, working for the world market) nor upon that management of estates, under which the landlords carry on agriculture for their own account, own all the instruments of production, and exploit the labor of free or unfree servants, who are paid in kind or in money. In this case, the landlord and the owner of the instruments of production, and thus the direct exploiter of the laborers counted among these instruments of production, are one and the same person. Rent and profit likewise coincide then, there being no separation of the different forms of surplus-value. The entire surplus labor of the workers, which is here represented by the surplus product, is extracted from them directly by the owner of all the instruments of production, to which the land and, under the original form of slavery, the producers themselves, belong. Where capitalist conceptions predominate, as they did upon the American plantations, this entire surplus-value is regarded as profit. In places where the capitalist mode of production does not exist, nor the conceptions corresponding to it have been transferred from capitalist countries, it appears as rent. At any rate, this form does not present any difficulties. The income of the landlord, whatever may be the name given to it, the available surplus product appropriated by him, is here the normal and predominating form, under which the entire unpaid labor is directly appropriated, and the property in land forms the basis of this appropriation.

VI.XLVII.38

There is, furthermore, the small peasants' property. Here the farmer is the free owner of his land, which appears as his principal instrument of production, the indispensable field of employment for his labor and his capital. No lease money is paid under this form. Rent, therefore, does not appear as a separate form of surplus-value here, although in countries, in which capitalist industry in other lines is developed, it appears as a surplus profit by comparison with other lines of production. But it is a surplus profit which, like all the rest of the product of his labor, falls into the hands of the farmer himself.

VI.XLVII.39

This form of property in land requires that, as was the case under the earlier forms, the rural population should have a great preponderance over the city population, so that, while capitalist production may generally prevail, it is nevertheless but relatively little developed, concentration of capitals moves in narrow circles in the other lines of production, and dissipation of capitals predominates. Under these conditions, the greater part of the rural product will have to be consumed, as a direct means of subsistence, by the producers, the farmers themselves, and only the surplus above that will pass as commodities into the commerce with the cities. Whatever may be the manner, in which the average market price of the products of the soil is regulated in this case, the differential rent, a surplus portion of the

price of commodities from the superior or more favorably located lands, must evidently exist in this case just as it does under the capitalist mode of production. This differential rent would exist, even if this form should appear under social conditions, in which no general market price has as yet been developed. It appears then in the spare surplus product. Only it flows into the pocket of the farmer, whose labor realises itself under favorable natural conditions. It is precisely under this form that the assumption is correct, as a rule, that no absolute rent exists, so that the worst soil does not pay any rent. For under this form the price of land enters as an element into the actual cost of production for the farmer, since in the course of the further development of this form the price of land may have been figured, for instance in the case of a division of an estate, at a certain money value, or, in view of the continuous change in the ownership of the whole property, or of its parts, the land may have been bought by the tiller himself, largely by taking up money on a mortgage. In this way the price of land, which is nothing else but a capitalized rent, is a pre-existing condition and rent seems to exist independently of any differentiation in the fertility and location of the land. Absolute rent is conditioned either upon the realized surplus of the value of the product above its price of production, or a monopoly price exceeding the value of the product. But since agriculture is carried on here largely as an agriculture for direct subsistence, so that the land is an indispensable field of employment for the labor and capital of the majority of the population, the regulating market price of the product

will come up to its value only under extraordinary circumstances. But its value will, as a rule, stand higher than its price of production on account of the predominance of the element of living labor, although this excess of its value over its price of production will be in its turn limited by the low composition of the capital, even of that of the industries outside of agriculture, in countries with a predominance of small farmers' property. For the small farmer the limit of exploitation is not set by the average profit of the capital, if he is a small capitalist, nor by the necessity of making a rent, if he is a landowner. Nothing appears as an absolute limit for him, as a small capitalist, but the wages which he pays to himself, after deducting his actual costs. So long as the price of the product covers these wages, he will cultivate his land, and will do so often down to the physical minimum of his wages. As for his capacity as a landlord, the barrier of property is eliminated in his case, since it can exert its influence only against a capital (including labor) separated from it, by erecting an obstacle against its investment. It is true that interest on the price of land, which generally has to be paid to another, the holder of the mortgage, also forms a barrier. But this interest can be paid out of that portion of the surplus labor, which would form the profit under capitalist conditions. The rent anticipated in the price of land, and in the interest paid for it, cannot be anything else but a portion of the capitalized surplus labor of the farmer, performed by him beyond the labor indispensable for his subsistence, without realising this surplus labor in a part of the value of commodities equal to the entire

average profit, and still less in a surplus profit, which would constitute a surplus above the surplus labor realised in the average profit. The rent may be a deduction from the average profit, or even the only portion of it which is realised. In order that the small farmer may cultivate his land, or may buy land for cultivation, it is therefore not necessary, as it is under a normal capitalist production, that the market price of his products should rise high enough to allow him the average profit, and still less a surplus above this average profit fixed in the form of a rent. Therefore it is not necessary that the market price should rise, either as high as the value or as high as the price of production of his product. This is one of the causes which keeps the price of cereals lower in countries with a predominance of small farmers than in countries with a capitalist mode of production. One portion of the surplus labor of the farmers, who work under the least favorable conditions, is given to society without an equivalent and does not pass over into the regulation of the price of production or into the formation of values in general. This lower price is also a result of the poverty of the producers and by no means of the productivity of their labor.
VI.XLVII.40

This form of free farmers' property managing their own affairs, as the prevailing, normal, form constitutes on the one hand the economic foundation of society during the best times of classical antiquity, on the other hand it is found among modern nations as one of the forms

arising from the dissolution of feudal landlordism. In this way we meet the yeomanry in England, the peasantry in Sweden, the farmers in France and Western Germany. We do not mention the colonies here, since the independent farmer there develops under different conditions.
VI.XLVII.41

The free ownership of the selfemploying farmer is evidently the most normal form of landed property for small scale production, that is, for a mode of production, in which the possession of the land is a prerequisite for the ownership of the product of his own labor by the laborer, and in which the agriculturist, whether he be a free owner or a vassal, always has to produce his own means of subsistence independently, as a single laborer with his family. The ownership of the soil is as necessary for the complete development of this mode of production as the ownership of the instrument is for the free development of handicraft production. This ownership forms here the basis for the development of personal independence. It is a necessary stage of transition for the development of agriculture itself. The causes which bring about its downfall show its limitations. These causes are: Destruction of rural house industries, which form its normal supplement, as a result of the development of great industries; a gradual deterioration and exhaustion of the soil subjected to this cultivation; usurpation, on the part of the great landlords, of the community lands, which form everywhere the second supplement of

small peasants' property and alone enable them to keep cattle; competition, either of plantation systems or of great agricultural enterprises carried out on a capitalist scale. Improvements of agriculture, which on the one hand bring about a fall in the prices of the products of the soil, and on the other require greater investments and more diversified material conditions of production, also contribute towards this end, as they did in England during the first half of the 18th century.
VI.XLVII.42

Small peasants' property excludes by its very nature the development of the social powers of production of labor, the social forms of labor, the social concentration of capitals, cattle raising on a large scale, and a progressive application of science.
VI.XLVII.43

Usury and a system of taxation must impoverish it everywhere. The expenditure of capital in the price of the land withdraws this capital from cultivation. An infinite dissipation of means of production and an isolation of the producers themselves go with it. Also an enormous waste of human energy. A progressive deterioration of the conditions of production and a raising of the price of means of production is a necessary law of small peasants' property. Fertile seasons are a misfortune for this mode of production.*141
VI.XLVII.44

One of the specific evils of small scale agriculture, when combined with the free ownership of the land, arises from the fact that the agriculturist invests a capital in the purchase of the land. (The same applies also to the form of transition, in which the great landlord invests capital, first, for the purpose of buying land, and secondly, for the purpose of managing it as his own tenant). Owing to the changeable nature, which the land here assumes as a mere commodity, the changes of ownership increase,*142 so that the land, from the point of view of the farmer, passes again into the calculation as a new investment of capital with every new generation, every division of estates, in other words, that it becomes land bought by him. The price of land here forms an overwhelming element of the individual false cost of production, or of the cost price of the product for the individual producer.
VI.XLVII.45

The price of land is nothing but the capitalized, and therefore anticipated, rent. If agriculture is carried on by capitalist methods, so that the landlord receives only the rent, and the tenant pays nothing for the land except his annual rent, then it is evident that the capital invested by the owner of the land himself in the purchase of the land constitutes an interest-bearing investment of capital for him, but that it has nothing to do with the capital invested in agriculture itself. It forms neither a part of the fixed nor of the circulating capital

employed here;*143 it merely secures for the buyer a title to the annual rent, but has nothing to do with the production of the rent itself. For the buyer of land pays his capital out to the one who sells the land, and the seller relinquishes his ownership of the land for this consideration. This capital does not exist any more as the capital of the buyer after that. He has not got it any longer. Therefore it does not belong to the capital, which he can invest in any way in the land itself. Whether he bought the land at a high or a low price, or whether he received it for nothing, does not alter anything in the capital invested by the tenant in his establishment, and does not make any change in the rent, but merely changes the question, whether it appears to him as interest or not as interest, or as a high or a low interest.
VI.XLVII.46

Take, for instance, the slavery system. The price paid for a slave is nothing but the anticipated and capitalized surplus-value or profit, which is to be ground out of him. But the capital paid for the purchase of a slave does not belong to the capital, by which profit, surplus labor, is extracted from him. On the contrary. It is capital, which the slave holder gives away, it is a deduction from the capital, which he has available for actual production. It has ceased to exist for him, just as the capital invested in the purchase of land has ceased to exist for agriculture. The best proof of this is the fact, that it does not come back into existence for the slave holder or the land

owner, until he sells the slave or the land once more. Then the same condition of things holds good for the buyer. The fact that he has bought the slave does not enable him to exploit the slave without further ceremony. He is not able to do so until he invests some other capital in production by means of the slave.
VI.XLVII.47

The same capital does not exist twice. It does not exist one time in the hands of the seller, and a second time in the hands of the buyer of the land. It passes from the hands of the buyer to those of the seller, and that settles the matter. The buyer has then no longer any capital, but in its stead he has a piece of land. The fact that the rent produced by a real investment of capital in this land is figured by the new owner of the land as interest on a capital, which he did not invest in the soil, but gave away as a purchase price for the land, does not alter the economic nature of the factor land in the least, any more than the fact that some one may have paid 1,000 pounds sterling for 3% consols has anything to do with the capital, out of whose revenue the interest on the national debt is paid.
VI.XLVII.48

In fact, the money expended in the purchase of land, like that spent for the purchase of national bonds, is merely capital in itself, just as any amount of values is capital in itself on the basis of capitalist production. It is potential capital. The thing paid for the land, like that

paid for national bonds or any other purchased commodity, is a sum of money. This is capital in itself, because it may be converted into capital. It depends upon the use to which the seller puts it, whether the money obtained by him really becomes capital or not. For the buyer it can never again perform the functions of capital, any more than any other money which he has finally spent. It figures in his calculations as interest-bearing capital, because he considers the income, which he receives as rent from his land or as interest on his bonds, as interest on the money, which he paid for his title to this revenue. He cannot realise it as capital unless he sells his title again. If he does, then the new buyer assumes the same relationship in which the old one was, and the money spent in this transaction cannot transform itself into actual capital by any change of hands. VI.XLVII.49

In the case of small property in land the illusion, that the land itself has value and may, therefore, pass as a capital into the price of production of the product, like a machine or raw materials, fortifies itself still more. But we have seen that the rent, and with it capitalised rent, or the price of land, can pass over into the price of the products of the soil in two cases only. The first case is that, in which the value of the products of the soil stands higher than their price of production and the market conditions enable the landlord to realise this difference; this condition of values and prices of production obtains, when the composition of the agricultural capital raises the

value above the price of production. This agricultural capital has nothing to do with the capital invested in the purchase of the land. The second case is that in which a monopoly price exists. And both cases occur less under small peasants' property and small land ownership than under any other form, because production largely satisfies the producers' own wants in their case and is carried on independently of the regulation by the average rate of profit. Even where small peasants' economy is carried on upon leased land, the lease money comprises more than under any other conditions a portion of the profit and even a deduction from the wages; this money is then only a nominal rent, not a rent representing an independent category as compared to wages and profit.
VI.XLVII.50

The expenditure of money-capital for the purchase of land, then, is not an investment of agricultural capital. It is a proportionate deduction from the capital, which the small farmers can employ in their own sphere of production. It reduces to that extent the size of their means of production and thereby narrows the economic basis of their reproduction. It subjects the small farmer to the money lender's extortion, since credit, in the strict meaning of the term, occurs but rarely in this sphere. It is an obstacle to agriculture, even where such a purchase takes place in the case of large estates. In fact, it contradicts the capitalist mode of production, which is on the whole indifferent to the question whether the land-owner is in debt, no

matter whether he inherited or bought his estate. The management of the leased estate itself is not altered in its nature, whether the landowner pockets the rent himself or whether he has to pay it over to the holder of his mortgage.
VI.XLVII.51

We have seen that the price of land is regulated by the rate of interest, if the ground-rent is a given magnitude. If the rate of interest is low, then the price of land is high, and vice versa. Normally, then, a high price of land and a low rate of interest would have to go hand in hand, so that if the farmer paid a high price for the land in consequence of a low rate of interest, the same low rate of interest should also secure for him his running capital on easy terms of credit. But in reality, things turn out differently under small peasants' property, as the prevailing form. In the first place, the general laws of credit do not apply to the farmer, since these laws rest upon the capitalist as a producer. In the second place, where small peasants' property predominates‘we are not speaking of colonies here‘and the small peasant forms the foundation of the nation, the formation of capital, that is social reproduction, is relatively weak, and the formation of loanable money-capital, in the sense in which we have previously analyzed this term, is still weaker. For this is conditioned upon concentration and the existence of a class of rich and idle capitalists (Massie). In the third place, where the ownership of the land is a necessary condition for the existence of the greater

part of the producers, as it is here, and an indispensable field of investment for their capital, the price of land is raised independently of the rate of interest, and often in an inverse ratio to it, by the preponderance of the demand for land over its supply. If sold in small lots, the land in this case brings a far higher price than it does by its sale in large estates, because the number of small buyers is large and that of the large buyers small (Bandes Noires, Rubichon; Newman). For all these reasons the price of land rises here while the rate of interest is relatively high. The relatively low interest, which the farmer here derives from the capital invested in the purchase of land (Mounier), corresponds on the other hand to the high rate of interest exacted by usury, which he himself has to pay to his mortgage creditors. The Irish system shows the same thing, only in another form.
VI.XLVII.52

This price of land, an element foreign in itself to production, may here rise to such a point that it makes production impossible (Dombasle).
VI.XLVII.53

The fact that the price of land plays such a role, that the sale and purchase of land, the circulation of land as a commodity, develops to this degree, is a practical result of capitalist development, since a commodity is here the form generally assumed by all products and all instruments of production. On the other hand, this development takes

place only wherever capitalist production develops but to a limited extent and does not bring forth all its peculiarities. For this condition rests precisely upon the fact that agriculture is no longer, or not yet, subject to the capitalist mode of production, but rather to a mode handed down from obsolete forms of society. The disadvantages of the capitalist mode of production, which makes the producers dependent upon the money price of their products, coincide here with the disadvantages due to the imperfect development of capitalist production. The farmer becomes a merchant and an industrial without the conditions which would enable him to produce his goods as commodities.
VI.XLVII.54

The conflict between the price of land, as an element in the cost price of the producers, but not an element in the price of production of the product (even though the rent should pass as a determining element into the price of the products of the soil, the capitalized rent, which is advanced for 20 years or more, does not pass into their price in this way), is but one of the forms through which the antagonism between private ownership of the land and between a rational agriculture, a normal social utilization of the soil, expresses itself. But on the other hand, the private ownership of the land, and with it the expropriation of the direct producers from the land‘the private property of some, which implies lack of private property on the part of others‘is the basis of the capitalist mode of production.

VI.XLVII.55

Here, in agriculture on a small scale, the price of the land a form and result of private ownership of the land, appears as a barrier of production itself. In agriculture on a large scale, and in the case of large estates resting upon a capitalist mode of production, private ownership likewise acts as a barrier, because it limits the tenant in his investment of productive capital, which in the last analysis benefits, not him, but the landlord. In both forms the exploitation and devastation of the powers of the soil takes the place of a consciously rational treatment of the soil in its role of an eternal social property, of an indispensable condition of existence and reproduction for successive generations of human beings. And besides, this exploitation is made dependent, not upon the attained degree of social development, but upon the accidental and unequal situations of individual producers. In the case of small property this happens from lack of means and science, by which the social productivity of labor-power might be utilized. In the case of large property, it is done by the exploitation of such means for the purpose of the most rapid accumulation of wealth for the tenant and proprietor. The dependence of both of them upon the market price is instrumental in accomplishing this result.

VI.XLVII.56

All critique of small property resolves itself in the last resort into a critique of private ownership as a barrier and obstacle of agriculture. And so does all counter-critique of large property. In either case, we leave aside, of course, all minor considerations of politics. This barrier and this obstacle, which are set up by all private property of land against agricultural production and against a rational treatment, conservation and improvement of the soil itself, develop on both sides merely in different forms. In the controversy over these specific forms of the evil its ultimate cause is forgotten.
VI.XLVII.57

Small property in land is conditioned upon the premise that the overwhelming majority of the population is rural, and that not the social, but the isolated labor predominates; that, therefore, in view of such conditions, the wealth and development of reproduction, both in its material and intellectual sides, are out of the question and with them the prerequisites of a rational culture. On the other hand, large landed property reduces the agricultural population to a continually decreasing minimum, and induces on the other side a continual increase of the industrial population crowded together in large cities. In this way it creates conditions, which cause an incurable break in the interconnections of the social circulation of matter prescribed by the natural laws of life. As a result the strength of the soil is wasted, and this prodigality is carried far beyond the boundaries of a certain country by commerce (Liebig).

VI.XLVII.58

While small property in land creates a class of barbarians standing half way outside of society, a class suffering all the tortures and all miseries of civilized countries in addition to the crudeness of primitive forms of society, large property in land undermines labor-power in the last region, in which its primal energy seeks refuge, and in it which stores up its strength as a reserve fund for the regeneration of the vital power of nations, the land itself. Large industry and large agriculture on an industrial scale work together. Originally distinguished by the fact, that large industry lays waste and destroys principally the labor-power, the natural power, of human beings, whereas large agriculture industrially managed destroys and wastes mainly the natural powers of the soil, both of them join hands in the further course of development, so that the industrial system weakens also the laborers of the country districts, and industry and commerce supply agriculture with the means by which the soil may be exhausted.

Notes for this chapter

137.
Adam Smith emphasizes the fact that at his time (and this applies also to the plantations in tropical and subtropical countries in our own time) rent and profit were not yet separated, for the landlord was at the same time a capitalist, just as Cato, for instance, was upon his

estates. But this separation is precisely the premise of the capitalist mode of production. Moreover, the basis of slavery stands in contradiction with the nature of capitalist production.

138.

Mr. Mommsen, in his Roman history, does not use the term capitalist in the sense in which modern economics and modern society does, but rather in the way peculiar to popular conception, such as still continues to vegetate, not in England or America, but upon the European continent, as an ancient tradition of past conditions.

139.

After a country had been conquered, the next step for the conquerer was always to take possession of the human beings also. Compare Linguet. See also Möser.

140.

Compare Buret, Tocqueville, Sismondi.

141.

See the speech of the king of France in Tooke.

142.

See Mounier and Rubichon.

143.

Dr. H. Maron (Extensive or Intensive?) [No further information given about this pamphlet]. He starts from the false assumption of those whom he combats. He assumes that the capital invested in the purchase of land is "first capital," and engages in a controversy about first capital and running capital that is, fixed and circulating capital.

His wholly amateurish conceptions of capital, which may be excused in one who is not an economist in view of the condition of German political economy, conceal from him the fact that this capital is neither first nor running capital, any more than the capital, which some one may invest at the Stock Exchange in the purchase of consols or state bonds, and which represents a personal investment of capital for him, is "invested" in any productive line of industry.

PART VII.
THE REVENUES AND THEIR SOURCES.
Part VII,

Volume III Chapter XLVIII. THE TRINITARIAN FORMULA.

I.*144

VII.XLVIII.1

CAPITAL‘Profit (Profit of Enterprise plus Interest), Land‘Ground-Rent, Labor‘Wages, this is the trinitarian formula which comprises all the secrets of the social process of production.
VII.XLVIII.2

Furthermore, since interest, as previously demonstrated, appear as the characteristic product of capital, and profit of enterprise distinguishes itself from interest by appearing as wages independent of capital, the above trinitarian formula reduces itself more specifically to the following: Capital‘Interest, Land‘Ground-Rent, Labor‘Wages. Here profit, the specific mark characterizing the form of surplus-value belonging to the capitalist mode of production, is happily eliminated.
VII.XLVIII.3

Now, if we look more closely at this economic trinity, we observe:
VII.XLVIII.4

1) The alleged sources of the annually available wealth belong to widely dissimilar spheres and have not the least analogy with one another. They have about the same relation to each other as lawyer's fees, carrots, and music.
VII.XLVIII.5

Capital, Land, Labor! But capital is not a thing. It is a definite interrelation in social production belonging to a definite historical formation of society. This interrelation expresses itself through a certain thing and gives to this thing a specific social character. Capital is not the sum of the material and produced means of production. Capital means rather the means of production converted into capital, and means of production by themselves are no more capital than gold

or silver are money in themselves. Capital signifies the means of production monopolized by a certain part of society, the products and material requirements of labor made independent of labor-power in living human beings and antagonistic to them, and personified in capital by this antagonism. Capital means not merely the products of the laborers made independent of them and turned into social powers, the products turned into rulers and buyers of their own producers, but also the social powers and the future...(illegible) form of labor, which antagonize the producers in the shape of qualities of their products. Here, then, we have a definite and, at first sight, very mystical, social form of one of the factors in a historically produced process of social production.
VII.XLVIII.6

By the side of this factor we have the land, the unorganic nature as such, a crude and uncouth mass, in its whole primal wildness. Value is labor. Therefore surplus-value cannot be land. The absolute fertility of the soil accomplishes no more than that a certain quantity of labor produces a certain product conditioned upon the natural fertility of the soil. The difference in the fertility of the soil brings it about that the same quantities of labor and capital, hence the same value, express themselves in different quantities of agricultural products, so that these products have different individual values. The equalization of these individual values into market-values is responsible for the fact that the

"advantages of fertile over inferior soil...are transferred from the cultivator or consumer to the landlord." (Ricardo, Principles, p. 6.)
VII.XLVIII.7

And finally, the third party in this conspiracy is a mere ghost, "Labor," a mere abstraction, and which does not exist when taken by itself, or, if we take...(illegible), the productive activity of human beings in general, by which they promote the circulation of matter between themselves and nature, divested not only of every definiteness of social form and character, but even of its mere natural existence, independent of society, lifted above all societies, being the common attribute of unsocial man as well as of man with any form of society and a general expression and assertion of life.

II.

VII.XLVIII.8

Capital‘Interest; Private Land, Private Ownership of the Earth, in modern form and corresponding to the capitalist mode of production‘ Rent; Wage Labor‘Wages. This is supposed to be the connection between the sources of revenue. Wage Labor and Private Land, like Capital, are historically determined social forms; one a social form of labor, the other a social form of the monopolized terrestrial globe, and

both forms belong to the same economic formation of society corresponding to capital.
VII.XLVIII.9

The first remarkable thing about this formula is that Land and Labor are placed indiscriminately by the side of Capital. The one, Capital, is a definite form of an element of production belonging to a definite mode of production having a definite cast. It is an element of production combined with and represented by a definite social form. The other two, Land on the one hand and Labor on the other, are two elements of the real labor process. In their material form they are common to all modes of production, they are the material elements of all processes of production, and have nothing to do with the social form of productive processes.
VII.XLVIII.10

Secondly. In this formula (Capital‘Interest, Land‘Ground-Rent, Labor‘ Wages of Labor), capital, land and labor respectively appear as sources of interest (instead of profit), ground-rent and wages, and these things appear as their fruits; capital, land and labor appear as the cause, interest, ground-rent and wages as the effect; and this is done in such a way that each individual source is combined with the thing which it puts forth and produces. All three revenues, interest (instead of profit), rent, wages, are three parts of the value of the product; generally speaking they are parts of value, or, expressed in

money, they are certain parts of money, certain parts of price. The formula "Capital‘Interest" has indeed the least meaning of any formula of capital; still it is one of its formulæ. But how is land supposed to create value, that is, a socially defined quantity of labor, or even that particular portion of the value of its own products which forms the rent? For instance, land takes part as an agent of production, in the creation of a use-value, of a material product, of wheat. But it has nothing to do with the production of the value of wheat. To the extent that value is represented by wheat, we consider wheat merely as a definite quantity of materialized social labor, regardless of the particular substance, in which this labor is materialized, or of the particular use-value of this substance.
VII.XLVIII.11

This is not in contradiction with the fact that, in the first place, other circumstances being equal, the cheapness or dearness of the wheat depends upon the productivity of the soil. The productivity of agricultural labor is conditioned upon natural circumstances, and the same quantity of labor is represented by many or by few products, use-values, according to the productivity of such labor. How large the quantity of labor may be, which is materialized in one bushel of wheat, depends upon the number of bushels produced by the same quantity of labor. It depends, in this case, upon the productivity of the soil, in what proportions of product value shall be materialized. But this value is given, independently of such a distribution. Value is

represented by use-value; and use-value is a prerequisite for the creation of exchange-value; but it is folly to construe an antagonism by placing upon one side a use-value, like land, and upon the other side an exchange-value, and at that some particular portion of exchange-value. In the second place...[here the manuscript stops short].

III.

VII.XLVIII.12

Vulgar economy really does nothing else but to interpret, in doctrinaire fashion, the ideas of persons entrapped in capitalist conditions of production and performing the function of agents in such production, to systematize and to defend these ideas. We need not wonder, then, that vulgar economy feels particularly at home in the estranged form of manifestation, in which economic conditions are absurd and complete contradictions, and that these conditions appear so much more self-explanatory to it, the more their internal connection is concealed. So long as the ordinary brain accepts these conceptions, vulgar economy is satisfied. But all science would be superfluous, if the appearance, the form, and the nature of things were wholly identical. Vulgar economy has not the slightest inkling of the fact that the trinity from which it takes its departure, namely Land‘Rent, Capital ‘Interest, Labor‘Wages of Labor (or Price of Labor), are on their very

face three incompatible propositions. First we have the use-value Land, which has no value, and the exchange-value Rent. Here a social relation is conceived as a thing and proportioned to nature. Two incommensurable magnitudes are supposed to be proportional to each other. Then we have Capital‘Interest. If capital is conceived as a certain sum of values independently represented by money, then it is manifestly nonsense to say that a certain value shall be valued higher than its value. It is precisely in the formula Capital‘Interest that all intermediate links are eliminated, and capital is reduced to its most general formula, which for this reason is inexplicable by itself and absurd. It is also for this reason that the vulgar economist prefers the formula Capital‘Interest, with its occult faculty of making a value unequal to itself, to the formula of Capital‘Profit, which approaches more nearly to the actual capitalist relations. Then again, driven by the restless thought that four is not five and that 100 dollars cannot be 110 dollars, he flees from Capital as an exchange-value to the material substance of capital, to its use-value as a material requirement of labor, as machinery, raw materials, etc. By this means he succeeds in putting into the place of the first incomprehensible relation, which makes four equal to five, a wholly incommensurable one between a use-value, a thing, upon the one hand, and a definite relation of social production, surplus-value, upon the other, as he does also in the case of private property in land. As soon as the vulgar economist has arrived at this incommensurable magnitude, everything becomes clear to him, and he no longer feels the need of thinking

any further. For he has arrived at what is "rational" in bourgeois conception. Finally we have Labor‘Wages of Labor, or Price of Labor. This last expression, as we have shown in Volume I, contradicts on its very face the conception of value as well as of price. Price, generally speaking, is but a definite expression of value. And "Price of Labor" is just as irrational as a yellow leogarithm. But here the vulgar economist is all the more satisfied, because it brings him to the deep understanding of the bourgeois, that he pays for labor with money, and because the fact that this formula contradicts the conception of value relieves him from all obligation to understand value.

VII.XLVIII.13

We*145 have seen that the capitalist process of production is a historically determined form of the social process of production in general. This process is on the one hand the process by which the material requirements of life are produced, and on the other hand a process which takes place under specific historical and economic conditions of production and which produces and reproduces these conditions of production themselves, and with them the human agents of this process, their material conditions of existence and their mutual relations, that is, their particular economic form of society. For the aggregate of these relations, in which the agents of this production live with regard to nature and to themselves, and in which they produce, is precisely their society, considered from the point of view

of its economic structure. Like all its predecessors, the capitalist process of production takes place under definite material conditions, which are at the same time the bearers of definite social relations maintained towards one another by the individuals in the process of producing their life's requirements. These conditions and these relations are on the one hand preriquisites, on the other hand results and creations of the capitalist process of production. They are produced and reproduced by it. We have also seen that capital (the capitalist is merely capital personified and functions in the process of production as the agent of capital), in the social process of production corresponding to it, pumps a certain quantity of surplus labor out of the direct producer, or laborer. It extorts this surplus without returning an equivalent. This surplus labor always remains forced labor in essence, no matter how much it may seem to be the result of free contract. This surplus labor is represented by a surplus-value, and this surplus-value is materialized in a surplus product. It must always remain surplus labor in the sense that it is labor performed above the normal requirements of the producer. In the capitalist system as well as in the slave system, etc., it merely assumes an antagonistic form and is supplemented by the complete idleness of a portion of society. A certain quantity of surplus labor is required for the purpose of discounting accidents, and by the necessary and progressive expansion of the process of reproduction in keeping with the development of the needs and the advance of population, called accumulation from the point of view of the capitalist. It is one of the civilizing sides of

capital that it enforces this surplus labor in a manner and under conditions which promote the development of the productive forces, of social conditions, and the creation of the elements for a new and higher formation better than did the preceding forms of slavery, serfdom, etc. Thus it leads on the one hand to a stage, in which the coercion and the monopolization of the social development (including its material and intellectual advantages) by a portion of society at the expense of the other portion are eliminated; on the other hand it creates the material requirements and the germ of conditions, which make it possible to combine this surplus labor in a higher form of society with a greater reduction of the time devoted to material labor. For, according to the development of the productive power of labor, surplus labor may be large in a small total labor day, and relatively small in a large total labor day. If the necessary labor time equals three, and the surplus labor three, then the total working day is equal to six, and the rate of surplus labor 100%. If the necessary labor is equal to nine, and the surplus labor three, then the total working day is twelve and the rate of surplus labor only 33 1/3%. Furthermore, it depends upon the productivity of labor, how much use-value shall be produced in a definite time, hence also in a definite surplus labor time. The actual wealth of society, and the possibility of a continual expansion of its process of reproduction, do not depend upon the duration of the surplus labor, but upon its productivity and upon the more or less fertile conditions of production, under which it is performed. In fact, the realm of freedom does not commence until

the point is passed where labor under the compulsion of necessity and of external utility is required. In the very nature of things it lies beyond the sphere of material production in the strict meaning of the term. Just as the savage must wrestle with nature, in order to satisfy his wants, in order to maintain his life and reproduce it, so civilized man has to do it, and he must do it in all forms of society and under all possible modes of production. With his development the realm of natural necessity expands, because his wants increase; but at the same time the forces of production increase, by which these wants are satisfied. The freedom in this field cannot consist of anything else but of the fact that socialized man, the associated producers, regulate their interchange with nature rationally, bring it under their common control, instead of being ruled by it as by some blind power; that they accomplish their task with the least expenditure of energy and under conditions most adequate to their human nature and most worthy of it. But it always remains a realm of necessity. Beyond it begins that development of human power, which is its own end, the true realm of freedom, which, however, can flourish only upon that realm of necessity as its basis. The shortening of the working day is its fundamental premise.
VII.XLVIII.14

In a capitalist society, this surplus-value, or this surplus product (leaving aside accidental fluctuations in its distribution and considering only the regulating law of these fluctuations), is divided among the

capitalists as a dividend in proportion to the percentage of the total social capital held by each. In this shape the surplus-value appears as the average profit, which falls to the share of the capital, an average profit, which in its turn is separated into profits of enterprise and interest, and which in this way may fall into the hands of different kinds of capitalists. This appropriation and distribution of the surplus-value, or surplus product, by the capital however, has its barrier in private ownership of land. Just as the active capitalist pumps surplus labor, and with it surplus-value and surplus products in the form of profit out of the laborer, so the landlord in his turn pumps a portion of this surplus-value, or surplus product, out of the capitalist, in the shape of rent, according to the laws previously demonstrated by us. VII.XLVIII.15

Hence, when speaking of profit as that portion of surplus-value, which falls to the share of capital, we mean average profit (profits of enterprise plus interest), which has already been limited by deducting the rent from the aggregate profits (identical in mass with the aggregate surplus-value). That rent has been deducted in the premise here. Profits of capital (profits of enterprise plus interest) and ground-rent are merely particular constituents of surplus-value, categories, by which surplus-value is distinguished according to whether it falls into the hands of capital or of private land. This classification does not alter its nature in any way. If added together, these parts form the sum of the social surplus-value. Capital pumps the surplus labor,

which is represented by surplus-value and surplus product, directly out of the laborers. To this extent it may be regarded as the producer of surplus-value. Private Land has nothing to do with the actual process of production. Its role is confined to carrying a portion of the produced surplus-value from the pockets of capital to its own. However, the landlord plays a role in the capitalist process of production, not merely by the pressure, which he exerts upon capital, nor by the fact that large property in land is a prerequisite and condition of capitalist production, seeing that it separates the laborer from the means of production, but particularly because the landlord appears as the personification of one of the most essential requirements of production.
VII.XLVIII.16

Finally, the laborer, in his capacity as the owner and seller of his individual labor-power, receives a portion of his product under the name of wages, in which that portion of his labor is materialized, which we call necessary labor, that is, the labor required for the conservation and reproduction of his labor-power, regardless of whether the conditions of this conservation and reproduction are scanty or bountiful, favorable or unfavorable.
VII.XLVIII.17

Whatever may be the disparity of these conditions in other respects, they all have this in common: Capital yields year after year a profit to

the capitalist, land a ground-rent to the landlord, and labor-power, under normal conditions and so long as it remains a useful labor-power, a wage to the laborer. These three parts of the total value produced annually, and the corresponding parts of the annually created total product, may be annually consumed by their respective owners, without draining the source of their reproduction (leaving aside for the present any consideration of accumulation). They are like the annually consumable fruits of a perennial tree, or rather of three trees. They form the annual revenue of three classes, the capitalist, the landlord and the laborer. They are revenues distributed at large by the active capitalist in his capacity as the direct exploiter of surplus labor and employer of labor in general. In this way the capital appears to the capitalist, the land to the landlord, and the labor-power or rather the labor itself, to the laborer (since he sells labor-power only to the extent that it is actively employed, and since the price of his labor-power, as previously shown, necessarily appears as the price of his labor under the capitalist system) as three different sources of their respective revenues, of profit, ground-rent and wages. They are so in fact in the sense that capital is for the capitalist a perennial pumping machine of surplus labor, the land for the landlord a perennial magnet attracting a portion of the surplus-value pumped out by capital, and finally, labor the continually self-renewing condition and the ever self-renewing means of acquiring a portion of the value created by the laborer and with it a part of the social product measured by this portion of value, the necessities of life, under the

title of wages. They are so, furthermore, in the sense that capital fixes a portion of the value, and thus of the product, of annual labor in the form of profit, the private land fixes another portion in the form of rent, and wage labor fixes a third portion in the form of wages, and converts them by this transformation into revenues of the capitalist, the landlord, and the laborer, without, however, creating the substance itself, which is transformed into these different categories.
VII.XLVIII.18

Their distribution rather presupposes the existence of this substance, namely the total value of the annual product, which is nothing but materialized social labor. But this is not the form, in which the matter appears to the human agents in production, to the human bearers of the various functions in the process of production. It rather appears to them reversed. We shall point out in the further course of our analysis, why this happens. Capital, ground-rent and labor appear to those human agents in production as three different, independent sources, from which arise three different constituents of the annually produced value, and of the product, in which it exists. They fancy that not merely the different forms of this value as revenues falling to the share of particular agents in the social process of production, but this value itself arises from these sources, and with it the substance of these forms of revenue.
VII.XLVIII.19

[Here one folio sheet of the manuscript is missing.]
VII.XLVIII.20

...Differential rent is bound up with the relative fertility of the soil, in other words, with qualities, which arise from the soil as such. But in the first place, to the extent that it rests upon the different individual values of the products of different kinds of soil, it is determined only in the manner just mentioned; in the second place, to the extent that it rests upon the regulating general market value, which differs from the individual value, it is a social law carried through by means of competition, and this law has nothing to do either with the soil or with the different degrees of its fertility.
VII.XLVIII.21

It might seem that a rational relation was expressed at least in the term "Labor‘Wages of Labor." But this is no more the case than it is in the term "Land‘Ground-Rent." To the extent that labor creates value, and materializes itself in the value of commodities, it has nothing to do with the distribution of this value among the different categories. And so far as it has the specifically social character of wage labor, it does not create any value. We have already shown that wages of labor, or price of labor, is but an irrational expression for the value, or price, of labor-power; and the definite social conditions, under which this labor-power is sold, have nothing to do with labor as a general agent in production. Labor is also materialized in that

portion of the value of a commodity, which forms the price of labor-power in the shape of wages; it creates this portion just as it does the other portions of the product; but it does not materialize itself in this portion to any other extent, or in any other way, than it does in the portions representing rent or profit. Besides, if we regard labor as a faculty creating value, we do not look upon its concrete form as a means of production, but upon its social relation, which differs from that of wage labor.
VII.XLVIII.22

Even the term "Capital‘Profit" is not correct here. If capital is viewed in the only relation, in which it produces surplus-value, namely in its relation to the laborer, in which it extorts surplus labor by compulsion exerted upon the wage laborer and his labor-power, then this surplus-value comprises not merely profit (profit of enterprise plus interest), but also rent, in short, the entire undivided surplus-value. Here, on the other hand, as a source of revenue, it is considered only in relation with that portion, which falls into the hands of the capitalist. This is not the surplus-value which it extracts, all together, but only that portion, which it extracts for the capitalist. Still more is all connection lost, as soon as the formula is transformed into "Capital‘ Interest."
VII.XLVIII.23

Now, having first considered the disparity of the above three sources, we must note, in the second place, that their products, their offspring, the revenues, all belong to the same sphere, namely that of value. However, this relation, not only between incommensurable magnitudes, but also between wholly unlike, mutually unrelated, and incomparable things, is accounted for by the fact that capital, like land and labor, is indeed taken only in its meaning as a material substance, that is, simply as a produced means of production, and in so doing both its relation to the laborer and its value are ignored.
VII.XLVIII.24

In the third place, if understood in this way, the formula Capital‘ Interest (Profit), Land‘Rent, Labor‘Wages of Labor, presents a uniform and symmetrical inconsistency. In fact, when wage labor does not appear as a socially determined form of labor, but rather all labor is considered naturally as wage labor (because it appears in this light to people who are biased by capitalist conditions of production), then the particular, specific, social forms observed by the material requirements of labor (the produced means of production and the land) towards wage labor (which is in its turn a prerequisite of those conditions), easily coincide with the material existence of these requirements of labor, or with the form possessed by them generally in the actual labor process, divested of all historically determined social forms, or even of any social form. The changed form of the requirements of labor, divested of labor and facing it as an independent element,

which is assumed by the produced means of production when they become capital, and by the land when it becomes monopolized land, private property, this form belonging to a definite period of history then coincides with the existence and the function of the produced means of production and of the earth, in the general process of production. Those means of production are then capital in themselves, by nature; capital is merely an "economic name" for those means of production; and in the same way land is then naturally the earth monopolized by a certain number of landlords. Just as the products become an independent power opposed to the producer when they become capital and capitalists (for capitalists are but the personification of capital), so the land becomes personified in the landlord and likewise rises on its feet to demand, as an independent power, its share of the product created by its assistance. Thus it is not the land, which receives its due portion of its product for the reproduction and improvement of its productivity, but the landlord, who takes a share of this product and sells or wastes it. It is evident that capital is conditioned upon labor in the capacity of wage labor. But it is likewise evident that if wage labor is taken as a point of departure for labor, so that the identity of any labor with wage labor appears to be a matter of course, then capital and monopolized land must also appear as the natural form of the material requirements of production as distinguished from labor. It then appears natural for the material prerequisites of labor to be capital, and this looks like their general character necessarily arising from their function in the labor

process. Capital and produced means of production thus become identical terms. In like manner land and land monopolized by private owners become identical terms. In this way the requirements of production in their assumed natural capacity of capital are considered as the source of profit, and so does the land assume the guise of the source of rent.
VII.XLVIII.25

Labor as such, in its simple capacity as a useful productive activity, refers to the means of production, not as concerns their form due to social conditions, but rather as concerns their material substance, their capacity as material and means of labor. And they are distinguished merely as use-values, the land as an unproduced, the others as produced means of production. If, then, labor is identical with wage labor, so is the particular social form assumed by the requirements of labor in their opposition to labor identical with their material existence. The requirements of labor are then natural capital, and the land is natural private property. The formal separation of these requirements of labor from labor, the peculiar form of their independence as compared to labor, thus becomes a necessary attribute, an inherent character, inseparable from the material conditions of production. The social character given to them in the process of capitalist production by a definite epoch of history becomes a natural character belonging to them, as it were, from time immemorial, as elements in the process of production. So it is that the respective part played by the

earth as the original field of activity of labor, as the realm of natural forces, as the pre-existing armory of all objects of labor, and the other respective part played by the produced means of production (instruments, raw materials, etc.) in the general process of production, must seem to be expressed in the respective shares claimed by them as capital and private land, in other words, which are pocketed by their social representatives in the form of profit (interest) and rent, just as the laborer seems to receive in his wages that share which is due to his labor in the process of production. Rent, profit and wages thus seem to grow out of the role played by the land, the produced means of production, and the labor in the simple labor process, even when we look upon this labor process as one passing merely between man and nature, without regard to any historical determination. VII.XLVIII.26

It is merely the same thing in another form, when it is argued that the product, in which the labor of the wage laborer materializes itself for himself, as his income, his revenue, is just his wages, is just that portion of value (and of the social product measured by this value), which represents his wages. If wage labor is identical with any labor, then so is the wage and the product of labor, and so is the portion of value representing wages and the value created by any labor. But in this way the other portions of value, profit and rent, also become independent and separated from wages, and must seem to arise from sources of their own, which differ from that of wages and are

independent of it. They must seem to arise out of the participating elements of production, by the owners of which they are claimed, so that profit seems to come from the means of production, the material elements of capital, and rent from the earth, or nature, represented by the landlord (Roscher).
VII.XLVIII.27

Private land, capital and wage labor are thus transformed into actual sources of revenue. It is thought that rent, profit and wages and the respective portions of the product representing these parts of value, in which they exist and for which they may be exchanged, arise from these sources directly, and that the value of the product itself arises in the last analysis from them.*146 They are not considered as sources of revenue in the sense that capital assigns to the capitalist, in the form of profit, a portion of the surplus-value extracted by him from labor, that monopoly in land attracts for the landlord another portion in the form of rent, and that labor gives to the laborer the remaining portion of value in the form of wages. They are not conceived as sources, by which one portion of value is transformed into profit, another into rent, a third into wages.
VII.XLVIII.28

In the case of the simplest categories of the capitalist mode of production, and even of the production of commodities, in the case of commodities and money, we have already pointed out the mystifying

character, which transforms the social conditions that use the material elements of wealth as bearers of production into qualities of these things themselves (commodities) and still more pronouncedly transforms the interrelations of production themselves into a thing (money). All forms of society, to the extent that they reach the stage in which commodities are produced and money circulated, take part in this perversion. But under the capitalist mode of production and in the case of capital, which forms its ruling category, its determining relationship in production, this enchanted and perverted world develops still more. If we consider capital in the actual process of production, as a means of extracting surplus-value, then this relationship is still very simple. The actual connection impresses itself upon the bearers of this process, the capitalists, and they are conscious of it. The violent struggle about the limits of the working day shows this clearly. But even within this undisguised sphere, the sphere of the direct process between labor and capital, matters do not rest in this simplicity. With the development of relative surplus-value in the typical, specifically capitalist mode of production, by which the social powers of production of labor are developed, these powers of production and the social interrelations of labor in the actual labor process seem transferred from labor to capital. This endows capital with a very mystic nature, since all of labor's social powers of production appear to be due to capital, not to labor as such, and seem to sprout from the womb of capital itself. Then the process of circulation intervenes, with its changes of substance and form, to

which all parts of the capital, even of agricultural capital, must submit to the extent that the specifically capitalist mode of production develops. This is a sphere, in which the conditions under which value is originally produced are pushed completely into the background. Even in the direct process of production the capitalist acts at the same time in the capacity of a producer of commodities, of a manager in the production of commodities. Hence this process of production appears to him by no means as a simple process by which surplus-value is produced. But whatever may be the surplus-value extorted by capital in the actual process of production and offered in the shape of commodities, the value and surplus-value contained in the commodities must first be realized in the process of circulation. And both the restitution of the values advanced in production and, particularly, the surplus-value contained in the commodities do not seem to be merely realized in the circulation, but actually to rise from it. This appearance of things is strengthened by two circumstances. In the first place, it is strengthened by the profit made through cheating, cunning, inside knowledge, ability and a thousand market constellations in the selling of commodities. In the second place, it is enhanced by the circumstance that a second determining element, the time of circulation, is here added to the labor time. It is true that the time of circulation asserts itself as a negative barrier against the formation of value and surplus-value, but it has the appearance of being quite as positive a cause as labor itself and of carrying into the problem a

determining element independent of labor and due to the nature of capital itself.
VII.XLVIII.29

In Volume II we had of course, to present merely the forms created and determined by this sphere of circulation, to demonstrate the further development of the form of capital, which takes place in it. But in reality this sphere is the sphere of competition, which, considered in each individual case, is dominated by accident. In other words, the internal law, which enforces itself in these accidents and regulates them, does not become visible until large numbers of these accidents are grouped together. It remains invisible and unintelligible to the individual agents in production. Furthermore: The actual process of production, considered as the unison of the strict process of production and the process of circulation, gives rise to new formations, in which the vein of the internal connections is lost, the conditions of production become separate identities, and the component parts of value become ossified into forms independent of one another.
VII.XLVIII.30

We have seen that the conversion of surplus-value into profit is determined as much by the process of circulation as it is by the process of production. The surplus-value, in the form of profit, is no longer referred back to that portion of capital, which is invested in labor and from which it arises, but to the total capital. The rate of

profit is regulated by laws of its own, which admit, or even require, a change in it while the rate of surplus-value remains unaltered. All this obscures more and more the true nature of surplus-value and thus the actual running gear of capital. Still more is this done by the transformation of profit into average profit and of the values into prices of production, into the regulating averages of the market prices. Here a complicated social process intervenes, the process by which the capitals are equalized, and which separates the relative average prices of the commodities from their values, as it separates also the average profits of the various spheres of production (quite aside from the individual investments of capital in each particular sphere of production) from the actual exploitation of labor by the different capitals. No longer does the average price of the commodities merely seem to differ from their value, but it actually does differ, it actually is not the same as the labor realised in them, and the average profit of some particular capital differs from the surplus-value, which this capital has extracted from the laborers employed by it. The value of the commodities appears no longer directly down to their very last boundaries, but remains visible only in the influence of the fluctuating productivity of labor upon the rise and fall of the prices of production. The profit seems to be determined only incidentally by the direct exploitation of labor, namely to the extent that this exploitation permits the capitalist to realize a profit differing from the average profit at the regulating market prices, which appear to be independent of such exploitation. The normal average profits themselves seem

immanent in capital and independent of exploitation. The abnormal exploitation, or even the average exploitation under exceptionally favorable conditions, seems to determine only the deviations from the average profit, not this profit itself. The division of profit into profit of enterprise and interest (not to mention the intervention of commercial profit and financial profit founded upon the circulation and seemingly arising wholly from it and not at all from the process of production itself) completes the self-dependence of the form of surplus-value, the ossification of its form as compared to its substance. One portion of the profit, as compared to the other, separates itself wholly from the relationship of capital as such and pretends to be an offspring not of the process by which wage labor is exploited, but of the wage labor of the capitalist himself. On the other hand, interest then seems to be independent both of the wage labor of the laborer and of that of the capitalist, and to arise from no other source but capital itself. Capital, appearing originally, on the surface of circulation, as a capitalist fetish, as a self-expanding value, now assumes in the form of interest-bearing capital, its most estranged and peculiar shape. For this reason the formula "Capital‘Interest," as the third link in "Land‘Rent" and "Labor‘Wages of Labor," appears much more consistent than "Capital‘ Profit," since in "Profit" there still remains a recollection of its origin, which is not only extinguished in "Interest," but also placed in opposition to this origin and fixed in this antagonistic form.
VII.XLVIII.31

Capital, as an independent source of surplus-value, is finally joined by private land, which acts as a barrier against average profit and transfers a portion of the surplus-value to a class that neither does any work of its own, nor directly exploits labor, nor can find moral consolation, like interest-bearing capital, in devotional subterfuges such as the alleged risk and sacrifice of lending money to others. Since a part of the surplus-value seems here bound up directly, not with a social relation, but with a natural element, the land, the form of the mutual estrangement and ossification of the various parts of surplus-value is completed, their internal connection completely disrupted, and its source entirely buried, because the relations of production have been made selfdependent in spite of the fact that they are bound up with the different material elements of the process of production. VII.XLVIII.32

In Capital‘Profit, or better Capital‘Interest, Land‘Rent, Labor‘Wages of Labor, in this economic trinity expressing professedly the connection of value and of wealth in general with their sources, we have the complete mystification of the capitalist mode of production, the transformation of social conditions into things, the indiscriminate amalgamation of the material conditions of production with their historical and social forms. It is an enchanted, perverted, topsy-turvy world, in which Mister Capital and Mistress Land carry on their goblin tricks as social characters and at the same time as mere things. It is the great merit of classic economy to have dissolved this false

appearance and illusion, this self-isolation and ossification of the different social elements of wealth by themselves, this personification of things and conversion of conditions of production into entities, this religion of everyday life. It did so by reducing interest to a portion of profit, and rent to the surplus above the average profit, so that both of them meet in surplus-value. It represented the process of circulation as a mere metamorphosis of forms, and finally reduced value and surplus-value of commodities to labor in the actual process of production. Nevertheless even the best spokesmen of classic economy remained more or less the prisoners of the world of illusion which they had dissolved critically, and this could not well be otherwise from a bourgeois point of view. Consequently all of them fall more or less into inconsistencies, half-way statements, and unsolved contradictions. On the other hand, it is equally natural that the actual agents of production felt completely at home in these estranged and irrational forms of Capital‘Interest, Land‘Rent, Labor‘ Wages of Labor, for these are the forms of the illusion, in which they move about and in which they find their daily occupation. It is also quite natural that vulgar economy, which is nothing but a didactic, more or less dogmatic, translation of the ordinary conceptions of the agents of production and which arranges them in a certain intelligent order, should see in this trinity, which is devoid of all internal connection, the natural and indubitiable basis of its shallow assumption of importance. This formula corresponds at the same time to the interests of the ruling classes, by proclaiming the natural necessity and

eternal justification of their sources of revenue and raising them to the position of a dogma.
VII.XLVIII.33

In our description of the way, in which the conditions of production are converted into entities and into independent things as compared to the agents of production, we do not enter into a discussion of the manner, in which the interrelations of the world market, its constellations, the movements of market prices, the periods of credit, the cycles of industry and commerce, the changes from prosperity to crises, appear to these agents as overwhelming natural laws that rule them irresistibly and enforce their rule over them as blind necessities. We do not enter into such a discussion, because the actual movements of competition belong outside of our plan, and because we have to present only the internal organization of the capitalist mode of production, as it were, in its ideal average.
VII.XLVIII.34

In preceding forms of society this economic mystification arises principally in the case of money and of interest-bearing capital. In the nature of the case it is out of the question where, in the first place, production is mainly for use, for the satisfaction of immediate wants, and where, in the second place, slavery or serfdom form the broad foundation of social production, as they did in antiquity and during the Middle Ages. The rule of the conditions of production over the

producers in those systems is concealed by the relation between masters and servants, which appear and are visible as the direct motive powers of the process of production. In the primitive societies, in which natural communism prevails, and even in the ancient urban communes, it is this community itself which appears as the basis of production, and its reproduction appears as its ultimate purpose. Even in the medieval guild system neither capital nor labor appear untrammeled. Their relations are rather defined by the corporate rules, by the conditions connected with them, and by the conceptions of professional duties, mastership, etc., which accompany them. Only when the capitalist mode of production...

Notes for this chapter

144.
The following three fragments were found in different places of the manuscript for Part VI.‘F. E.
145.
Beginning of Chapter XLVIII according to the manuscript.
146.
Wages, profit, and rent are the three original sources of all revenue, as well as of all exchangeable value (A. Smith).‘In this way the causes of material production are at the same time the sources of the existing primitive revenues. (Storch, I., p. 259.)

Part VII,

Volume III Chapter XLIX. A CONTRIBUTION TO THE ANALYSIS OF THE PROCESS OF PRODUCTION.

VII.XLIX.1

FOR the purposes of the following analysis we may leave out of consideration the distinction between the price of production and the value, since this distinction falls altogether to the ground, when, as is the case here, the value of the total annual product of labor is under discussion, in other words, the value of the product of the total social capital.

VII.XLIX.2

Profit (profit of enterprise plus interest) and rent are nothing but peculiar forms assumed by particular parts of the surplus-value of commodities. The magnitude of the surplus-value is the limit of the sum of parts, into which it may be divided. The average profit plus the rent are, therefore, equal to the surplus-value. It is possible that a part of the surplus labor contained in the commodities, and thus of the surplus-value, does not take part directly in the equalization tending toward an average rate of profit, so that a part of the value of commodities is not expressed at all in their price. But in the first place, this is balanced either by the fact that the rate of profit

increases, when the commodities sold below their value form an element of the constant capital, or by the fact that profit and rent are represented by a larger product, when the commodities sold below their value pass over into that portion of the value which is consumed as revenue in the shape of articles for individual consumption. In the second place, the average movement strikes the balance. At any rate, even if a portion of the surplus-value is not expressed in the price and is lost so far as the formation of prices is concerned, the sum of average profit plus rent in their normal form can never be larger than the total surplus-value, although it may be smaller. Their normal form is conditioned upon wages corresponding to the value of labor-power. Even monopoly rent, to the extent that it is not a deduction from wages, and does not constitute a special category, must be indirectly always a part of the surplus-value. If it is not a part of the surplus price above the cost of production of the commodity itself, of which it is a constituent part, as in the case of differential rent, or a spare portion of the surplus-value of the commodity itself, of which it is a constituent part, above that portion of its own surplus-value which is measured by the average profit (as in the case of absolute rent), it is at least a part of the surplus-value of other commodities, that is, of commodities which are exchanged for this commodity, which has a monopoly price.

VII.XLIX.3

The sum of average profit plus ground-rent can never be greater than the magnitude of which they are the parts and which exists before they are so partitioned. It is, therefore, immaterial for our discussion, whether the entire surplus-value of the commodities, that is, all the surplus labor materialized in the commodities, is realized in their price or not. The surplus labor is not entirely realized for the simple reason that, owing to the continual change in the amount of socially necessary labor for the production of a certain commodity, a change arising out of the continual change in the productive power of labor, one portion of the commodities is always produced under abnormal conditions and must, therefore, be sold below its individual value. At any rate, profit plus rent equal the total realized surplus-value (surplus-labor), and for the purposes of the present discussion the realized surplus-value may be assumed as equal to all surplus-value; for profit and rent are realized surplus-value, or generally speaking the surplus-value which passes into the prices of commodities, which is practically all the surplus-value forming a constituent part of this price. VII.XLIX.4

On the other hand, the wages, which are the third significant form of revenue, are always equal to the variable portion of capital, which is the portion invested, not in means of production, but in the purchase of living labor-power, in the payment of laborers. (The labor paid in the expenditure of revenue is itself paid in wages, profit, or rent, and therefore does not form any portion of the value of commodities by

which it is paid. Hence it is not considered in the analysis of the value of commodities and of the component parts into which it is divided.) Wages are the materialization of that portion of the total working day of the laborer, in which the value of the variable capital and thus the price of labor is reproduced. It is that portion of the value of commodities, in which the laborer reproduces the value of his own labor-power, or the price of his labor. The total working day of the laborer is divided into two parts. One portion is that in which he performs the amount of labor necessary to reproduce the value of his own means of subsistence. It is the paid portion of his total labor, that portion which is necessary for his own maintenance and reproduction. The entire remaining portion of the working day, the entire surplus quantity of labor performed above the value of the labor realized in his wages, is surplus labor, unpaid labor, represented by the surplus-value of his entire product in commodities (and thus by a surplus quantity of commodities), surplus-value, which in its turn is divided into differently named parts, into profit (profit of enterprise plus interest) and rent.
VII.XLIX.5

The entire portion of the value of commodities, then, in which the total labor of the laborers added during one day, or one year, is realized, is divided into the value of wages, into profit and into rent. For this total labor is divided into necessary labor, by which the laborer creates that portion of the value of his product, with which he

is himself paid, that is, his wages, and into unpaid surplus labor, by which he creates that portion of the value of the product, which represents surplus-value and which is later divided into profit and rent. Aside from this labor the laborer does not perform any labor, and he does not create any value outside of the total value of the product, which assumes the forms of wages, profit and rent. The value of the annual product, in which the new labor added by the laborer during the year is incorporated, is equal to the wages, or the value of the variable capital, plus the surplus-value, which in its turn is divided into profit and rent.

VII.XLIX.6

The entire portion of the value of the annual product, then, which the laborer creates in the course of the year, is expressed in the annual sum of the values of the three revenues, the values of wages, profit, and rent. Evidently, therefore, the value of the constant portion of capital is not reproduced in the value of the annually created product, for the wages are only equal to the value of the variable portion of capital advanced in production, and rent and profit are only equal to the surplus-value, the produced excess of value above the total value of the advanced capital, which is equal to the value of the constant plus the value of the variable capital.

VII.XLIX.7

It is immaterial for the difficulty to be solved here that a portion of the surplus-value converted into the form of profit and rent is not consumed as revenue, but is accumulated. That portion, which is saved up as a fund for accumulation, serves for the formation of new, additional, capital, but not for the reproduction of the old capital, neither of that portion of the old capital which is invested in wages nor of that which is invested in means of production. We may, therefore, assume here for the sake of simplicity that the revenues pass wholly into individual consumption. The difficulty has a twofold aspect. On the one hand, the value of the annual product, in which these revenues, wages, profit and rent, are consumed, contains a portion of value, which is equal to the portion of value of the constant part of capital used up in it. It contains this portion of value in addition to the other portion, which resolves itself into wages and that which resolves itself into profit and rent. Its value is therefore equal to wages plus profit plus rent plus C (its constant portion of value). How can an annually produced value, which equals only wages plus profit plus rent, buy a product which has a value of wages plus profit plus rent plus C?
VII.XLIX.8

How can the annually produced value buy a product, which has a higher value than its own?
VII.XLIX.9

On the other hand, if we leave aside that portion of the constant capital which did not pass over into the product, and which, therefore, continues to exist after the annual production of commodities as it did before it; in other words, if we leave aside the employed, but not consumed fixed capital, we find that the constant portion of the advanced capital has been wholly transferred to the new product in the shape of raw and auxiliary materials, whereas a part of the instruments of labor has been wholly consumed and another part of them only partially, so that only a part of its value has been consumed in production. This entire portion of the constant capital, which has been consumed in production, must be reproduced in its natural form. Assuming all other circumstances, particularly the productive power of labor, to remain unchanged, this portion requires for its reproduction the same amount of labor as before, that is, it must be replaced by its equivalent in value. If it is not, then reproduction itself cannot take place on the old scale. But who is going to perform this labor, and who performs it?
VII.XLIX.10

In the first question, to-wit, Who is going to pay for the constant portion of value, and with what? it is assumed that the value of the constant capital consumed in production reappears as a part of the value of the product. This does not contradict the assumptions of the second difficulty. For we have demonstrated already in Volume I, Chapter VII (The Labor Process and the Process of Producing Surplus-

Value), that the mere addition of new labor, although it does not reproduce the old value, but creates merely an addition to it, creates only additional value, still preserves at the same time the old value in the product; that this is done, however, by labor, not to the extent that it is a labor producing value, labor in general, but in its function as a definite productive labor. Therefore no additional labor was necessary for the purpose of preserving the value of the constant portion in the product, in which the revenue, that is, the entire value created during the year, is expended. On the other hand, it requires new additional labor to replace the value and use-value of the constant capital consumed during the past year, for unless this is replaced no reproduction is possible at all.
VII.XLIX.11

All newly added labor is represented in the value newly created during the year, and this is divided into the three revenues, that is, into wages, profit and rent. On the one hand, then, no spare social labor remains for the reproduction of the consumed constant capital, which must partially be replaced in its natural form and its value, and partially merely in its value (for the mere wear and tear of fixed capital). On the other hand, the value annually created by labor, divided into wages, profit and rent, and to be spent in these forms, does not suffice to pay for, or buy, the constant portion of capital, which must be contained in the annual product outside of itself.
VII.XLIX.12

We see, then, that the problem presented here has already been solved in the discussion of the reproduction of the total social capital, Volume II, Part III. We return to it here, in the first place, for the reason that the surplus-value had not been developed in that volume into its revenue forms, profit (profit of enterprise plus interest) and rent and, therefore, could not be treated in these forms; in the second place, because the formula of wages, profit and rent is connected with an incredible aberration of the analysis, which pervades the entire political economy since Adam Smith.
VII.XLIX.13

In Volume II we divided all capital into two great classes: Class I, producing means of production, and Class II, producing articles of individual consumption. The fact that certain products may serve as well for personal consumption as for means of production (a horse, cereals, etc.), does not invalidate the absolute correctness of this division in any way. It is, in fact, no hypothesis, but merely the expression of a fact.
VII.XLIX.14

Take the annual product of a certain country. One portion of the product, whatever may be its ability to serve as means of production, passes over into individual consumption. It is the product for which wages, profit and rent are spent. This product is the product of a

definite section of the social capital. It is possible that this same capital may also produce products belonging to Class I. To the extent that it does that, it is not the portion of capital consumed in the shape of the product of Class II, a product belonging actually to individual consumption, which supplies the productively consumed products passing into Class I. This entire product II, which passes into individual consumption, and for which the revenue is spent, is the material form of the capital consumed in it plus the produced surplus. It is also the product of a capital invested in the mere production of articles of consumption. And in the same way section I of the annual product, which serves as means of reproduction and consists of raw materials and instruments of labor, is the product of a capital invested in the mere production of means of production. By far the greater part of the products forming the constant capital exists also materially in a form, in which it cannot pass into individual consumption. To the extent that it might be so used, for instance, to the extent that a farmer might eat his seed corn, butcher his teaming cattle, etc., the economic barrier puts him into the same position in which he would be if this portion did not have a consumable form.
VII.XLIX.15

We have already said that we leave out of consideration, in both classes, the fixed part of the constant capital, which continues to exist so far as its material substance and value are concerned, independently of the annual product of both classes.

VII.XLIX.16

In Class II, consisting of products for which wages, profit and rent are spent and the revenues thus consumed, the product consists of three parts, so far as its value is concerned. One part is equal to the value of the constant portion of capital consumed in production; a second part is equal to the value of the variable capital invested in wages; finally, a third part is equal to the value of the produced surplus-value, that is, equal to profit plus rent. The first part of the product of Class II, the value of the constant portion of capital, cannot be consumed either by the capitalists of Class II, or by the laborers of this class, or by the landlords. It does not form any part of their revenues, but must be replaced in its natural form, and must be sold in order that this may be done. On the other hand, the other two parts of this product are equal to the value of the revenues created in this class, equal to wages plus profit plus rent.

VII.XLIX.17

In Class I the product consists of the same parts, so far as its form is concerned. But that part, which here forms revenue, wages plus profit plus rent, in short, the variable portion of capital plus the surplus-value, is not consumed here in the natural form of the products of this Class I, but in products of the Class II. The value of the revenues of Class I must, therefore, be consumed in the shape of that portion of the products of Class II, which forms the constant

capital of II, that must be reproduced. That portion of the product of Class II, which must reproduce its constant capital, is consumed in its natural form by the laborers, the capitalists and the landlords of Class I. They spend their revenues for this product of II. On the other hand, the product of I, to the extent that it represents a revenue of Class I, is productively consumed in its natural form by Class II, whose constant capital it replaces in its natural form. Finally, the consumed constant portion of the capital of Class I is replaced out of the products of this class itself, which consist of instruments of labor, raw and auxiliary materials, either by an exchange of the capitalists of I among themselves, or in such a way that a portion of these capitalists can use their own product once more as means of production.

VII.XLIX.18

Let us take the diagram used in Volume II, Chapter XX, II, for simple reproduction:

I. 4000 c + 1000 v + 1000 s = 6000
II. 2000 c + 500 v + 500 s = 3000, Total 9000.

VII.XLIX.19

According to this, the producers and landlords of II consume 500 v + 500 s = 1,000 as revenue; 2,000 c remain to be reproduced. This is

consumed by the laborers, capitalists and rent owners of I, whose income is 1,000 v + 1,000 s = 2,000. The consumed product of II is consumed as a revenue by I, and that portion of the revenue of I, which represents an unconsumable product, is consumed as a constant capital by II. It remains to account for the 4,000 c of I. This is replaced out of the product of I itself, which is 6,000, or rather 6,000 minus 2,000, for these last 2,000 have already been converted into constant capital of II. It should be noted that these numbers have been chosen at random, and so the proportion between the value of the revenues of I and the value of the constant capital of II also appears arbitrary. But it is evident that so far as the process of reproduction is normal and takes place under otherwise unchanged circumstances, leaving aside the question of accumulation, the sum of the values of wages, profit and rent in Class I must be equal to the value of the constant portion of the capital of Class II. Otherwise Class II will not be able to reproduce its constant capital, or Class I will not be able to convert its revenue from unconsumable into consumable articles.

VII.XLIX.20

The value of the annual product in commodities, just like the value of the commodities produced by some particular investment of capital, and like the value of any individual commodity, resolves itself into two parts: Part A, which replaces the value of the advanced constant capital, and Part B, which presents itself in the form of wages, profit

and rent. This last part of value, B, stands in opposition to the Part A to the extent that this Part A, under otherwise equal circumstances, in the first place never assumes the form of revenue, and in the second place always flows back in the form of capital, and of constant capital at that. The other portion, B, however, carries within itself an antagonism. Profit and rent have this in common with wages that all three of them are forms of revenue. Nevertheless they differ essentially from each other in that profit and rent are surplus-value, unpaid labor, whereas wages are paid labor. That portion of the value of the product, which represents spent wages and reproduces wages, and must be reconverted into wages under the conditions assumed by us, flows back first in the shape of variable capital, as a portion of the capital that once more must be advanced for the purposes of reproduction. This portion has a double function. It exists first in the form of capital and is exchanged as such for labor-power. In the hands of the laborer it is converted into revenue, which he draws out of the sale of his labor-power, and as revenue it is spent for means of subsistence and consumed. This double process is revealed through the intervention of money circulation. The variable capital is advanced in money, paid out as wages. This is its first function as capital. It is converted into labor-power and transformed into the expression of labor-power, into labor. This is the capitalist's side of the process. In the second place, the laborers buy with this money a part of the commodities produced by them, which part is measured by this money, and is consumed by them as revenue. If we imagine the

circulation of money to be eliminated, then a part of the product of the laborer is in the hands of the capitalist in the form of existing capital. He advances this part as capital, hands it over to the laborer for new labor-power, while the laborer consumes it directly or indirectly by means of exchange for other commodities, as his revenue. That portion of the value of the product, then, which is destined in the course of reproduction to be converted into wages, into revenue for the laborers, flows back at first into the hands of the capitalist in the form of capital, more accurately of variable capital. That it should flow back in this form is an essential requirement, in order that labor as wage labor, the means of production as capital, and the process of production itself as a capitalist process may always be reproduced.
VII.XLIX.21

In order to avoid useless difficulties, it is necessary to distinguish the gross output and the net output from the gross income and the net income.
VII.XLIX.22

The gross output, or the gross product, is the total reproduced product. With the exception of the employed but not consumed portion of the fixed capital, the value of the gross output, or of the gross product, is equal to the value of the capital advanced and consumed in production, that is, the constant and variable capital plus

the surplus-value, which resolves itself into profit and rent. Or, if we consider the product of the total social capital instead of that of some individual capital, the gross output is equal to the material elements forming the constant plus variable capital, plus the material elements of the surplus product, in which profit and rent are materialized.
VII.XLIX.23

The gross income is that portion of value and that portion of the gross product measured by it, which remains after deducting that portion of value and that portion of the total product measured by it, which replaces the constant capital advanced and consumed in production. The gross income, then, is equal to the wages (or to that portion of the product which is to become once more the income of the laborer) plus the profit plus the rent. On the other hand, the net income is the surplus-value, and thus the surplus product, which remains after the deduction of the wages, and which, in fact, represents the surplus-value realized by capital and to be divided with the landlords, and the surplus product measured by it.
VII.XLIX.24

Now we have seen that the value of each individual commodity and the value of the total commodities produced by each individual capital is divided into two parts, one of which replaces only constant capital, and the other of which, although a part of it flows back as variable capital, that is, also in the form of capital, nevertheless is destined to

be wholly transformed into a gross income, and to assume the form of wages, profit and rent, the sum of which makes up the gross income. We have also seen that the same is true of the value of the annual total product of a certain society. There is only this difference between the product of the individual capitalist and that of society: From the point of view of the individual capitalist the net income differs from the gross income, for this last includes the wages, whereas the first excludes them. Viewing the income of the whole society, the national income consists of wages plus profit plus rent, that is, of the gross income. But even this is an abstraction to the extent that the entire society, on the basis of capitalist production, places itself upon the capitalist standpoint and considers only the income divided into profit and rent as the net income.
VII.XLIX.25

On the other hand, the dream of men like Say, to the effect that the entire output, the entire gross output, resolves itself into the net income of the nation and cannot be distinguished from it, so that this distinction disappears from the national point of view, is but the necessary and ultimate expression of the absurd dogma pervading political economy since Adam Smith, that the value of commodities resolves itself in the last analysis into an income, into wages, profit and rent.*147
VII.XLIX.26

Of course, it is very easy to understand, in the case of each individual capitalist, that a portion of his product must be reconverted into capital (even aside from an expansion of reproduction, or accumulation), not only into variable capital, which is destined to become in its turn an income for the laborers, a form of revenue, but also into constant capital, which can never be converted into revenue. The simplest observation of the process of production shows this clearly. The difficulty does not begin, until the process of production is studied as a whole. The fact has to be faced that the value of the entire portion of the product, which is consumed in the form of wages, profit and rent (immaterial whether the consumption is individual or productive), resolves itself under analysis wholly into a sum of values formed by wages plus profit plus rent, that is, into the total value of the three revenues, although the value of this portion of the product quite as well as that which does not pass over into the revenues contains a portion of value, equal to C, equal to the value of the constant capital contained in it, which on its very face cannot be limited by the value of the revenue. On the one hand we have the practically irrefutable fact, on the other hand the equally undeniable theoretical contradiction. This difficulty is most easily circumvented by the assertion that the value of commodities contains another portion of value, differing only seemingly, from the one existing in the form of revenue only from the point of view of the individual capitalist. The phrase that a thing is revenue for one man and capital for another saves all further thought. But then it remains

an insoluble riddle, how the old capital is to be replaced, when the value of the entire product can be consumed as revenue; and how it is that the value of the product of each individual capital can be equal to the sum of the values of the three revenues plus C, the constant capital, whereas the sum of the values of the products of all capitals can be equal to the sum of the values of the three revenues plus zero. And the riddle must be solved by declaring that any analysis is incapable of finding out the simple elements of price, and must be satisfied with the faulty cycle and the progress into infinity. So that the thing which appears as constant capital may be resolved into wages, profit and rent, whereas the values of the commodities, in which wages, profit and rent are materialized, are determined in their turn by wages, profit and rent, and so forth to infinity.*148
VII.XLIX.27

The entirely false dogma to the effect that the value of commodities resolves itself in the last analysis into wages plus profits plus rent expresses itself in the assertion that the consumer must ultimately pay for the total value of the total product, or that the money circulation between producers and consumers must ultimately be equal to the money circulation between the producers themselves (Tooke). All these assertions are as false as the axiom upon which they are founded.
VII.XLIX.28

The difficulties, which lead to this false and prima facie absurd analysis, are briefly the following:
VII.XLIX.29

1) The first difficulty is that the fundamental relationship of constant and variable capital, hence also the nature of surplus-value, and with them the entire basis of the capitalist mode of production, are not understood. The value of each portion of any product of capital contains a certain portion of value equal to the constant capital, another portion of value equal to the variable capital (converted into wages for the laborer), and another portion of value equal to surplus-value (which later on becomes profit and rent). How is it possible that the laborer with his wages, the capitalist with his profit, the landlord with his rent, should be able to buy commodities, each one of which contains not only one of these elements, but all three of them, and how is it possible that the sum of the values of wages, profit and rent, that is, of the three sources of revenue together, should be able to buy the commodities passing over into the total consumption of the recipients of these incomes, since these commodities contain another portion of value, namely constant capital, outside of the other portions of value? How can they buy a value of four with a value of three? *149
VII.XLIX.30

We have given our analysis in Volume II, Part III.

VII.XLIX.31

2) The second difficulty is that the way, in which labor, by adding a new value, preserves old value in a new form without producing this old value anew, is not understood.
VII.XLIX.32

3) The third difficulty is that the connections of the process of reproduction are not understood, as it presents itself, not from the point of view of individual capital, but from that of the total capital. The difficulty is to explain how it is that the product, in which wages and surplus-value, in short the entire value produced by all the labor newly added during the current year, can be converted into money, can reproduce the constant part of its value and yet at the same time resolve itself into a value confined within the limits of the revenues; and how it is that the constant capital consumed in production can be replaced by the substance and value of new capital, although the total sum of the newly added labor is realized only in wages and surplus-value, and is fully represented by the sum of the values of both. It it here where the main difficulty lies, in the analysis of reproduction and of the proportions of its various component parts, both as concerns their material substance and the proportions of their value.
VII.XLIX.33

4) To these difficulties is added another one, which is intensified still more as soon as the various component parts of the surplus-value appear in the form of revenues independent of each other. This is the difficulty that the fixed marks of revenue and capital are interchanged and occupy different places, so that they seem to be merely relative determinations from the point of view of the individual capitalist and to disappear as soon as the total process of production is viewed as a whole. For instance, the revenue of the laborers and capitalists of Class I, which produces constant capital, replaces the value and the substance of the constant capital of the capitalists of Class II, which produces articles of consumption. One may, therefore, get around the difficulty by means of the conception that the thing which is revenue for one is capital for another. This promotes the idea that these functions have nothing to do with the actual peculiarities of the component parts of value in the commodities. Furthermore: Commodities which are ultimately intended for the purpose of forming the substantial elements in the expenditure of revenue, in other words, articles of consumption, pass through various stages during the year, such as woolen yarn, cloth. In the one stage they form a portion of the constant capital, in the other they are consumed individually, and thus pass wholly into the revenue. One may, therefore, imagine with Adam Smith that the constant capital is but seemingly an element of the value of commodities, which disappears in the total interrelation. Furthermore, a similar exchange takes place between variable capital and revenue. The laborer buys with his

wages that portion of the commodities which form his revenue. In this way he creates at the same time for the capitalist the money form of the variable capital. Finally: One portion of the products, which form constant capital, is replaced in its natural form or by means of exchange by the producers of the constant capital themselves. The consumers have nothing to do with this process. When this is overlooked the impression is created that the revenue of the consumers replaced the entire product, even the constant portion of its value.
VII.XLIX.34

5) Aside from the confusion created by the transformation of the values into prices of production, another confusion is due to the transformation of surplus-value into different, separate, independent forms of revenue traced back to different elements of production, into profit and rent. It is forgotten that the values of commodities are the basis, and that the division of the values of commodities into separate portions, and the further development of these portions of value into forms of revenue, their transmutation into relations of the various owners of the different agencies in production to these parts of value, their distribution among these owners according to definite categories and titles, does not alter anything in the determination of value or in its law. Neither is the law of value changed by the fact that the equalization of profit, that is, the distribution of the total value among the various capitals, and the obstacles, which private land to some

extent puts in the way of this equalization (in absolute rent), makes the regulating average prices different from the individual values of the commodities. This again affects merely the addition of the surplus-value to the different prices of commodities, but does not abolish the surplus-value itself, nor the total value of commodities in its capacity as the source of these different constituents of value.
VII.XLIX.35

This is the confusion, which we shall consider in our next chapter, and which is necessarily connected with the illusion that the value arises out of its own component parts. First the various component parts of value receive independent forms in the revenues, and in their capacity as revenues they are referred back to the particular substantial elements of production as their alleged sources instead of to the values of commodities, which are their real source. They are actually referred back to those sources, not as components of value, but as revenues, as components of value falling to the share of definite classes of agents in production, the laborer, the capitalist and the landlord. But one might imagine that these parts of value, instead of arising out of the distribution of the value of commodities, rather form it by their composition, and this leads to that nice and faulty circle, which makes the value of commodities arise out of the sum of the values of wages, profit, rent, and the value of wages, profit and rent, in their turn, is to be determined by the value of commodities, etc.*150

Considering reproduction in its normal condition, only a part of the newly added labor is employed for production and thus for the reproduction of the constant capital. This is precisely the portion which replaces the constant capital used up in the production of articles of consumption, of substantial parts of the revenue. This is balanced by the fact that this constant portion does not require any additional labor on the part of Class II. Looking upon the total process of reproduction as a whole, in which this equalising exchange between Classes I and II is included, this constant capital is not a product of newly added labor, although the product of this labor could not be created without that capital. This constant capital, looking upon it from the point of view of substance, is exposed to certain accidents and dangers in the process of reproduction. (Furthermore, considering it from the point of view of value, it may be depreciated through a change in the productive power of labor; but this refers only to the individual capitalist.) Accordingly a portion of the profit, of surplus-value and of the surplus-product, in which only newly added labor is represented, so far as its value is concerned, serves as an insurance fund. In this case it does not matter, whether this insurance fund is managed by separate insurance companies or not. This is the only part of the revenue which is neither consumed as such nor serves necessarily as a fund for accumulation. Whether it actually serves in the accumulation, or covers merely a shortage in reproduction,

depends upon accident. This is also the only portion of the surplus-value and surplus-product, and thus of surplus-labor, which would continue to exist, outside of that portion which serves for accumulation and for the expansion of the process of reproduction, even after the abolition of the capitalist system. This, of course, is conditioned upon the premise that the portion regularly consumed by the direct producers does not remain limited to its present minimum. Outside of the surplus-labor for those, who on account of age can not yet or no longer take part in production, all surplus labor for non-workers would disappear. If we transport ourselves back to the beginnings of society, we find no produced means of production, hence no constant capital, the value of which could pass into the product, and which would have to be replaced in its natural form out of the product in reproduction on the same scale, and to a degree measured by its value. But nature there supplies immediately the means of subsistence, which do not have to be produced. For this reason nature gives to the savage having but few wants the time, not to use non-existing means of production in new production, but to transform, outside of the labor required for the appropriation of naturally existing means of production, other products of nature into means of production, bows, stone knives, boats, etc. This process among savages, considered merely from the side of its substance, corresponds to the reconversion of surplus-labor into new capital. In the process of accumulation, this conversion of the product of surplus labor into capital takes place continually; and the fact that all new

capital arises out of profit, rent, or other forms of revenue, that is, out of surplus labor, leads to the mistaken idea that all value of commodities arises from some revenue. On the other hand, this reconversion of profit into capital rather shows on closer analysis, that the additional labor, which is always represented in the form of revenue, does not serve for the conservation, or reproduction, of the old capital, but for the creation of new surplus capital to the extent that it is not consumed as revenue.
VII.XLIX.37

The whole difficulty arises from the fact that all newly added labor, to the extent that the value created by it is not dissolved into wages, appears as profit, that is, as a value which does not cost the capitalist anything and therefore cannot make good some capital advanced by him. This value rather exists in the form of available additional wealth, or, from the point of view of the individual capitalist, in the form of his revenue. But this newly created value can just as well be consumed productively as individually, equally well as capital and as revenue. In view of its natural form, some of it must be productively consumed. It is, therefore, evident that the annually added labor creates capital as well as revenue; this becomes evident in the process of accumulation. That portion of the labor-power, which is employed in the creation of new capital (analagous to that portion of the working day of a savage employed, not for the appropriation of subsistence, but for the manufacture of tools by which to appropriate

subsistence), becomes evident in the fact that the entire product of surplus labor presents itself at first in the shape of profit; this use of it has indeed nothing to do with this surplus-product itself, but refers merely to the private relation of the capitalist to the surplus-value pocketed by him. In fact, the surplus-value created by the capitalist is divided into revenue and capital, that is, into articles of consumption and additional means of production. But the old constant capital, which was handed over from last year (outside of the portion that was injured and to that extent destroyed, in short, the old constant capital that does not have to be reproduced, and so far as there is any break in the process of reproduction, the insurance covers that), so far as its value is concerned, is not reproduced by the newly added labor.
VII.XLIX.38

We see, furthermore, that a portion of the newly added labor is continually absorbed in the reproduction and replacement of consumed constant capital, although this newly added labor resolves itself altogether in revenues, in wages, profit and rent. But it is always overlooked, 1) that one portion of the value of this new labor is not a product of this new labor, but previously existing and consumed constant capital; that the portion of the product, in which this part of value presents itself, cannot be converted into revenue, but replaces the means of production of this constant capital in their natural form. 2) It is overlooked that the portion of value, in which this newly

added labor is actually represented, is not consumed as revenue in its natural form, but replaces the constant capital in another sphere, where it is moulded into a natural form, in which it may be consumed as revenue, but which in its turn is not wholly a product of newly added labor.
VII.XLIX.39

To the extent that reproduction takes place on the same scale, every consumed element of the constant capital must be replaced by a new natural specimen of the same kind, if not in quantity and form, then at least in natural effectiveness. If the productive power of labor remains the same, then this natural replacement implies the reproduction of the same value, which the constant capital had in its old form. But if the productive power of labor is increased, so that the same substantial elements may be reproduced with less labor, then a smaller portion of value of this product can completely replace the constant part in its natural shape. The surplus may then be employed in the formation of additional capital, or a larger portion of the product may be given the form of articles of consumption, or the surplus labor may be reduced. On the other hand, if the productive power of labor decreases, then a larger portion of the product must be used for the replacement of the old capital; the surplus product decreases.
VII.XLIX.40

The reconversion of profit, or of any form of surplus-value, into capital shows‘without considering the historically defined economic form and looking upon it merely as a simple formation of new means of production‘that the condition still continues, in which the laborer performs surplus labor for the purpose of producing means of production, outside of the labor by which he acquires his means of subsistence. Transformation of profit into capital signifies merely the employment of a portion of the surplus labor in the formation of new, additional, means of production. That this takes place in the shape of a conversion of profit into capital, signifies merely that not the laborer, but the capitalist has control of the surplus labor. That this surplus labor must first pass though a stage, in which it appears as revenue (whereas in the case of a savage it appears as surplus labor aiming directly at the manufacture of means of production), means simply that this labor, or its product, is appropriated by the non-laborer. But what is actually converted into capital, is not the profit as such. Transformation of surplus-value into capital signifies merely that the surplus-value and the surplus-product are not consumed individually as revenue of the capitalist. What is actually so converted is the value, the materialized labor, that is, the product in which this value directly presents itself, or for which it is exchanged after having been converted into money. Even when the profit is reconverted into capital, it is not this definite form of surplus-value, not the profit, which is the source of the new capital. The surplus-value is merely changed from one form into another. But it is not this change of form

which gives it the character of capital. It is the commodity and its value, which now perform the function of capital. But that the value of the commodity is not paid for‘and only by this means does it become surplus-value‘is quite immaterial for the materialization of labor, for value itself.
VII.XLIX.41

The misunderstanding expresses itself in various forms. For instance, it is said that the commodities, of which the constant capital consists, also contain elements of wages, profit and rent. Or, that the thing, which is revenue for the one, is capital for some one else, and that these are but subjective relations. Thus the yarn of the spinner contains a portion of value representing profit for him. If the weaver buys the yarn, he realizes the profit of the spinner, but for himself this yarn is merely a part of his constant capital.
VII.XLIX.42

Aside from the remarks made on this score concerning the relations between revenue and capital, we add the following observations: The value which passes with the yarn as a constituting element into the capital of the weaver, is the value of the yarn. In what manner the parts of this value have resolved themselves for the spinner into capital and revenue, or, in other words, into paid and unpaid labor, is immaterial for the determination of the value of the commodity itself (aside from modifications by the average profit). Back of this lurks the

idea that the profit, or the surplus-value in general, is a surplus above the value of the commodity, which can be made only by raising the price, by mutual cheating, by making a gain through sale. When the price of production is paid, or the value of the commodity, this pays, naturally, also for those portions of the value of commodities, which present themselves to the seller in the shape of revenue. Of course, we are not speaking of monopoly prices here.
VII.XLIX.43

In the second place, it is quite correct to say that the component parts of a commodity which make up the constant capital, like any other value of commodities, may be reduced to parts of value, which resolve themselves for the producers and the owners of the means of production into wages, profit and rent. This is merely a capitalist form of expression for the fact that all value of commodities is but the measure of the socially necessary labor contained in the commodities. But we have already shown in Volume I, that this does not prevent a separation of the produced commodities of any capital into separate parts, of which the one represents exclusively the constant portion of capital, another the variable portion of capital, and a third one only surplus-value.
VII.XLIX.44

Storch expresses the opinion of many others, when he says: "The salable products, which make up the national revenue, must be

considered in political economy in two ways. They must be considered in their relations to individuals as values and in their relations to the nation as goods. For the revenue of a nation is not appreciated like that of an individual, by its value, but by its utility or by the wants which it can satisfy." (Considerations sur le revenu national, p. 19.)
VII.XLIX.45

In the first place, it is a false abstraction to regard a nation, whose mode of production is based upon value and otherwise capitalistically organized, as an aggregate body working merely for the satisfaction of the national wants.
VII.XLIX.46

In the second place, after the abolition of the capitalist mode of production, but with social production still in vogue, the determination of value continues to prevail in such a way that the regulation of the labor time and the distribution of the social labor among the various groups of production, also the keeping of accounts in connection with this, become more essential than ever

Notes for this chapter

147.
Ricardo makes the following very apt comment on thoughtless Say: "Of net produce and gross produce, Mr. Say speaks as follows: 'The

whole value produced is the gross produce; this value, after deducting from it the cost of production, is the net produce. (Vol. II, p. 491.) There can, then, be no net produce, because the cost of production, according to Mr. Say consists of rent, wages and profits. In page 508 he says: 'The value of a product, the value of productive service, the value of the cost of production, are all, then, similar values, whenever things are left to their natural course.' Take a whole from a whole and nothing remains." (Ricardo, Principles, Chapter XXII, p. 512, Note.)'By the way, we shall see later that Ricardo nowhere refuted the false analysis made by Smith of the price of commodities, its reduction to the sum of the values of the revenues. He does not take notice of it, and assumes it to be correct to such an extent that he "abstracts" from the constant portion of the value of commodities. He also falls back now and then into the same conception.

148.

"In every society the price of every commodity finally resolves itself into some one or the other, or all of those three parts (viz. wages, profits, rent)....A fourth part, it may perhaps be thought, is necessary for replacing the stock of the farmer or for compensating the wear and tear of his laboring cattle, and other instruments of husbandry. But it must be considered that the price of any instrument of husbandry, such as a labouring horse, is itself made up of the same three parts: the rent of the land upon which he is reared, the labour of tending and rearing him, and the profits of the farmer, who advances both the rent of his land and the wages of his labour.

Though the price of corn, therefore, may pay the price as well as the maintenance of the horse, the whole price still resolves itself either immediately or ultimately into the same three parts of rent, labour (meaning wages) and profit." (Adam Smith.)‘We shall show later on, that Adam Smith himself felt the inconsistency and insufficiency of this subterfuge, for it is nothing but a subterfuge on his part to send us from Pontius to Pilate while he nowhere indicates the real investment of capital, in the case of which the price of the product resolves itself ultimately into these three parts, without any remainder and any further progression.

149.

Proudhon, incapable of grasping this, exposes his incapableness in the formula: The laborer cannot buy back his own product, because the interest is contained in it, which is added to the purchase price. But how does Mr. Eugene Forcade teach him to know better? "If Proudhon's objection were true, it would strike not only the profits of capital, but would annihilate the possibility of all industry. If the laborer is compelled to pay 100 for each article for which he has received only 80, if his wages can buy back only the value which he has put into it, it would be as well to say that the laborer cannot buy back anything, that wages cannot pay for anything. In fact, there is always something more than the wages of the laborer contained in the purchase price, and always more than the profits of enterprise in the selling price, for instance, the price of the raw materials, which often goes to foreign countries....Proudhon forgot about the continual

increase of the national capital; he forgot that this increase refers to all laborers, the enterprising industrials as well as the hand laborers." (Revue des deux Mondes, 1848, tome, 24, p. 99.) Here we have the optimism of bourgeois thoughtlessness in the form of wisdom corresponding to it. First Mr. Forcade believes that the laborer could not live, if he did not receive a higher value than that which he produces, whereas the capitalist mode of production, on the contrary, could not exist, if he received all the value which he really produces. In the second place he correctly generalizes the difficulty, which Proudhon expressed only under a more narrow point of view. The price of the commodities contains not only more than the wages, but also more than the profit, namely the constant portion of value. According to Proudhon's reasoning then, the capitalist could not buy back the commodities with his profit. And how does Forcade solve this riddle? By means of a meaningless phrase: The increase of capital. The continual increase of capital is supposed to manifest itself, among other things, also in the fact that the analysis of the price of commodities, which is impossible for the political economist in the case of a capital of 100, becomes superfluous in the case of a capital of 10,000. What would he say of a chemist, who, on being asked: How is it that the product of the soil contains more carbon than the soil? would answer: It comes from the continual increase of the product of the soil. The well-meaning good will to discover in the bourgeois world the best of all worlds takes the place, in vulgar

economy, of any necessity to cultivate love of truth and scientific methods of research.

150.

"The circulating capital invested in materials, raw products and machinery is itself composed of merchandise, the necessary price of which is formed of the same elements; so that, viewing the total merchandise in a certain country, it would mean using the same thing twice to count this portion of the circulating capital among the elements of the necessary price." (Storch, Cours d'Economie Politique, II, page 140.)‘By these elements of circulating capital Storch means the constant capital (the fixed capital is for him merely a different form of the circulating). "It is true that the wages of the laborer, the same as that portion of the profits of enterprise which stands for wages, provided we consider them as a part of the means of subsistence, also consist of merchandise bought at current prices and comprise likewise wages, interest on capital ground rent and profit of enterprise....But this observation merely proves that it is impossible to resolve the necessary price into its simplest elements." (Ibidem note.)‘ In his Considerations sur la nature du revenu national (Paris, 1824). Storch realizes in his controversy with Say to what absurdity the false analysis of the value of commodities leads, when it resolves value into mere revenues. He points out the folly of such results, not from the point of view of the individual capitalist, but from that of a nation, but he does not go a step further himself in his analysis of the "prix nécessaire," saying in his "Cours" that it is impossible to resolve it

into its simplest elements and tracing it back into an endless progression. "It is evident that the value of the annual product is distributed partly among capital and partly among profits, and that each one of these parts of the value of the annual product buys regularly the products needed by a nation, as much for the purpose of preserving its capital as for the purpose of renewing its consumable fund (pages 134, 135)....Can a self-employing peasant's family live in its barns or its stables, eat its seed and forage, clothe itself with its laboring cattle, dispense with its agricultural implements? According to the thesis of Mr. Say all these questions would have to be answered in the affirmative (pages 135, 136)...If it is admitted that the revenue of a nation is equal to its gross product, that is, if no capital has to be deducted from it, then it must also be admitted that a nation can spend the entire value of its annual product unproductively without impairing its future income in the least (147). The products which constitute the capital of a nation cannot be consumed." (p. 150.)

Part VII,

Volume III Chapter L. THE SEMBLANCE OF COMPETITION.

VII.L.1

WE have shown, that the value of commodities, or the price of production regulated by their total value, resolves itself into:

VII.L.2

1) One portion of value replacing constant capital, or representing past labor, used up in the form of means of production in the making of the commodity. This, in brief, is the value, or price, which these means of production carried into the process of production of the commodities. We never speak of individual commodities in this case, but of commodity-capital, that is, of that form, in which the product of capital during a certain period of time, say of one year, presents itself, and of which the individual commodity forms one element, which, moreover, so far as its value is concerned, resolves itself into the same analogous constituents.

VII.L.3

2) One portion of value representing variable capital, which measures the income of the laborer and converts itself into wages for him. The laborer has produced these wages in this variable portion of value. This, briefly, is that portion of value, which represents the paid portion of the new labor added to the above constant portion in the production of commodities.

VII.L.4

3) Surplus-Value, which is that portion of the value of the produced commodities, in which the unpaid, or surplus labor is incorporated. This last portion of the value in its turn assumes the independent

forms, which are at the same time forms of revenue, namely the forms of profit on capital (interest on capital as such and profit of enterprise on capital in productive work) and ground-rent, which is claimed by the owner of the land participating in the process of production. The parts mentioned under 2) and 3), that is, that portion of value, which always assumes the revenue forms of wages (but only after having first gone through the form of variable capital), profit and rent, is distinguished from the constant portion mentioned under 1) by the fact that in it that entire portion of value is dissolved, in which the additional labor added to that constant part, to the means of production of the commodities, is materialized. Now, if we leave aside the constant portion, then it is correct to say that the value of a commodity, to the extent that it represents newly added labor, continually resolves itself into three parts, which form three forms of revenue, namely wages, profit and rent,*151 in which the respective magnitudes of value, that is the aliquot portions, which they constitute in the total value, are determined by various peculiar laws, which we have analysed previously. But on the other hand, it would be a mistake to say that the value of wages, the rate of profit, and the rate of rent form independent constituent elements of value, whose composition gives rise to the value of commodities, leaving aside the constant part; in other words, it would be a mistake to say that they are constituent elements of the value of commodities, or of the price of production.*152

VII.L.5

The difference is easily seen.
VII.L.6

Take it that the value of the product of a capital of 500 is equal to 400 c + 100 v + 150 s = 650; let the 150 s be divided into 75 profit + 75 rent. We will also assume, in order to forestall useless difficulties, that this is a capital of average composition, so that its price of production and its value coincide; this coincidence always takes place, whenever the product of such an individual capital may be considered as the product of some portion of the total capital corresponding to the same magnitude.
VII.L.7

Here the wages, measured by the variable capital, form 20% of the advanced capital; the surplus-value, calculated on the total capital, forms 30%, namely 15% profit and 15% rent. The entire portion of value of the commodity representing the newly added labor is equal to 100 v + 150 s = 250. Its magnitude does not depend upon its division into wages, profit and rent. We see by the proportion of these parts to each other that a labor-power, which is paid with 100 in money, say 100 pounds sterling, has supplied a quantity of labor represented by money to the amount of 250 pounds sterling. We see from this that the laborer performed one and a half times as much surplus labor as he did labor for himself. If the working day contained

10 hours, then he worked 4 hours for himself and 6 hours for the capitalist. Therefore the labor of the laborers paid with 100 pounds sterling is expressed in money to the amount of 250 pounds sterling. Outside of this value of 250 pounds sterling there is nothing to divide between laborer and capitalist, between capitalist and landlord. It is the total value newly added to the value of 400, which is the value of the means of production. The value of 250 thus produced and determined by the quantity of labor materialized by it in the commodities forms the limit of the dividend, which the laborer, the capitalist and the landlord will be able to draw out of this value in the shape of the revenues, wages, profit and rent.
VII.L.8

Take it that a capital of the same organic composition, that is, of the same proportion between the employed living labor-power and the constant capital set in motion by it, should be compelled to pay 150 pounds sterling instead of 100 pounds sterling for the same labor-power which sets in motion the constant capital of 400. And let us further assume that profit and rent should share the surplus-value in a different proportion. As we have assumed that the variable capital of 150 pounds sterling sets the same quantity of labor in motion as the variable capital of 100 did, the newly added value would be 250 as before, and the total value of the product would be 650, also as before. But the formula would then read: 400 c + 150 v + 100 s, and these 100 s would be divided, say, into 45 profit and 55 rent.

The proportion, in which the newly produced total value would now be divided among wages, profit and rent, would now be very different. The magnitude of the advanced total capital would also be very different, although it would set only the same total quantity of labor in motion. The wages would amount to 27 8/11%, the profit to 8 2/11%, and the rent to 10% of the advanced capital. The total surplus-value would, therefore, amount to a little over 18%.
VII.L.9

In consequence of the raise in wages the unpaid portion of the total labor would be changed and with it the surplus-value. If the working day contained 10 hours, the laborer would work 6 hours for himself and 4 hours for the capitalist. The proportion of profit and rent would also be changed, the reduced surplus-value would be divided in a different proportion between the capitalist and the landlord. Finally, since the value of the constant capital would have remained the same, while the value of the advanced variable capital would have risen, the reduced surplus-value would express itself in a still more reduced rate of gross profit, by which we mean here the proportion between the total surplus-value and the advanced total capital.
VII.L.10

The change in the value of wages, in the rate of profit, and in the rate of rent, whatever might be the effect of the laws regulating the proportion of these parts, could move only within the limits set by the

newly produced value of commodities amounting to 250. An exception could take place only, if rent should rest upon a monopoly price. This would not alter the law itself, but merely complicate its analysis. For if we consider only the product itself in this case, then merely the division of the surplus-value would be different. But if we consider its relative value as compared to other commodities, then we should find no other difference but that a portion of the surplus-value had been transferred from them to this particular commodity.
VII.L.11

Let us sum up:

Table. Click to enlarge in new window.
VII.L.12

In the first place, the surplus-value falls by one-third from its former figure, it falls from 150 to 100. The rate of profit falls by a little more than one-third, from 30% to 18%, because the reduced surplus-value must be calculated on an increased advance of total capital. But it does not fall in the same proportion as the rate of surplus-value. This last falls from 150/100 to 100/150, that is, from 150% to 66 2/3%, whereas the rate of profit falls only from 150/500 to 100/550 or from 30% to 18 2/11%. The rate of profit, then, falls proportionately more than the mass of surplus-value, but less than the rate of surplus-value. We find, furthermore, that the values as well as the

masses of products remain the same, so long as the same quantity of labor is employed, although the advanced capital has increased by the augmentation of its variable portion. This increase of the advanced capital would indeed make itself felt for a capitalist who would start out in business. But looking upon reproduction as a whole, the augmentation of the variable capital means merely that a larger portion of the new value added by newly performed labor is converted into wages, and thus at first into variable capital instead of into surplus-value and surplus products. The value of the product thus remains the same, because it is bounded on the one hand by the value of the constant capital, 400, and on the other hand by the figure 250, in which the newly added labor is represented. Both of these values remain unaltered. The product would represent the same amount of use-value in the same quantity of exchange-value, to the extent that it would return into the constant capital, so that the same mass of elements of constant capital would retain the same value. The matter would be different, if the wages should rise, not because the laborer would receive a larger share of his own labor, but if he should receive a larger portion of his own labor, because the productivity of labor would have decreased. In this case, the total value, in which this same labor, paid and unpaid, would be incorporated, would remain the same. But the mass of products, in which this quantity of labor would be incorporated, would be the same, so that the price of each aliquot portion of this product would rise, because each portion would contain more labor. The increased

wages of 150 would not represent any more labor than the wages of 100 did before; the reduced surplus-value of 100 would represent merely two-thirds of the product which it did previously, only 66 2/3% of the mass of use-values, which were formerly represented by 100. In this case the constant capital would also become dearer to the extent that this product would go back into it. But this would not be the result of the increase in wages. This increase in wages would rather be a result of the increase in the price of commodities and a result of the diminished productivity of the same quantity of labor. Here the impression is given that the raise in wages made the product dearer; however, this raise is not the cause, but rather a result of a change in the value of the commodities, due to the decreased productivity of labor.
VII.L.13

On the other hand, so long as all other circumstances remain the same, so long as the same quantity of employed labor is represented by 250, and the value of the means of production handled by it should then rise or fall, then the value of the same quantity of products would rise or fall by the same magnitude. 450 c + 100 v + 150 s make the value of the product equal to 700. But 350 c + 100 v + 150 s would make the value of the same quantity of products only equal to 600, as against a former 650. Hence, if the advanced capital should increase or decrease, while it sets the same quantity of labor in motion, the value of its product would rise or fall, other

circumstances remaining the same, if the increase or decrease of the advanced capital is due to a change in the value of the constant portion of capital. On the other hand, the value of the product remains unchanged, if the increase or decrease of the advanced capital is caused by a change in the value of the variable portion of capital, provided that the productivity of labor remains the same. In the case of the constant capital, the increase or decrease of its value is not balanced by any opposite movement. But in the case of the variable capital, so long as the productivity of labor remains the same, an increase or decrease of its value is balanced by the opposite movement on the part of the surplus-value, so that the value of the variable capital plus the surplus-value, that is, the new value added by new labor to the means of production and newly incorporated in the product, remains the same.
VII.L.14

But if the increase or decrease of the value of the variable capital is due to a rise or fall in the price of commodities, that is, to an increase or decrease of the productivity of the labor employed by this investment of capital, then the value of the product is affected. Only, the rise or fall of wages in this case is not a cause, but an effect.
VII.L.15

On the other hand, if the constant capital in the above illustration should remain at 400 c, and if the change from 100 v + 150 s to

150 v + 100 s, that is, an increase of the variable capital, should be due to a decrease in the productivity of labor, not in this same particular line of industry, say in cotton spinning, but perhaps in agriculture, so that it would be a result of a rise in the price of foodstuffs, then the value of the product would remain unchanged. The value of 650 would still be represented by the same quantity of cotton yarn.
VII.L.16

The foregoing leads furthermore to the following conclusions: If a decrease in the expenditure of constant capital is due to economies, etc., in such lines of production as supply agriculture with their products, then this, like a direct improvement in the productivity of the employed labor itself, may lead to a reduction of wages, because it would lead to a cheapening of the subsistence of the laborer, and this would imply an increase of the surplus-value; so that the rate of profit in this case would grow for two reasons, namely on the one hand, because the value of the constant capital would decrease, and on the other hand, because the surplusvalue would increase. In our analysis of the conversion of surplus-value into profit we assumed that the wages would not fall, but remain constant, because there we had to investigate the fluctuations of the rate of profit, independent of the changes in the rate of surplus-value. Moreover, the laws which we developed in that case are general ones, and apply also to investments of capital, the products of which do not pass over into

the consumption of the laborer, and in that case changes in the value of the product are without influence upon the wages.

VII.L.17

We know, then, that the separation and distribution of the new value added by new labor annually to the means of production, or to the constant part of capital, among the various forms of revenue, namely wages, profit and rent, do not alter the limits of this value itself, do not alter the sum of value to be so distributed; neither can a change in the proportions of these different parts alter their sum, which makes up this given magnitude of value. A given figure of 100 always remains the same, whether it is divided into 50 + 50, or into 20 + 70 + 10, or into 40 + 30 + 30. That portion of the value of the product, which is divided into these revenues, is determined, like the constant portion of the value of capital, by the value of commodities, that is, by the quantity of the labor incorporated in them from case to case. In the first place, then, the quantity of value of the commodities to be distributed among wages, profit and rent is given; in other words, the absolute limit of the sum of the portions of value of these commodities. In the second place, as concerns the individual categories themselves, their average and regulating limits are likewise given. The wages form the basis in this limitation. The wages are regulated on the one side by a natural law; their minimum is determined by the physical minimum required by the laborer for the

conservation of his labor-power and for its reproduction; this means a minimum quantity of commodities. The value of these commodities is determined by the labor time required for their reproduction; it is determined by that portion of the new labor added to the means of production, or by that portion of each working day, which the laborer must have for the production and reproduction of an equivalent for the value of these necessary means of subsistence. For instance, if his average daily food requirements have the value of six hours of average labor, then he must work on an average six hours per day for himself. The actual value of his laborpower differs from this physical minimum; it differs according to climate and condition of social development; it depends not merely upon the physical, but also upon the historically developed social needs, which become second nature. But in every country and at any given period this regulating average wage is a given magnitude. The value of all other revenues thus has its limit. It is always equal to the value, in which the total working day (which coincides in the present case with the average working day, since it comprises the total quantity of labor set in motion by the total social capital) is incorporated, minus that portion of this working day, which is incorporated in wages. Its limit is therefore determined by the limit of that value, in which the unpaid labor is expressed, that is, by the quantity of this unpaid labor. While that portion of the working day, which is required by the laborer for the reproduction of the value of his wages, finds its ultimate limit in the physical minimum of wages, the other portion of the working day,

in which surplus labor is incorporated, and with it that portion of value which stands for surplus-value, finds its limit in the physical maximum of the working day, that is, in the total quantity of daily labor time, during which the laborer can be active altogether and still preserve and reproduce his labor-power. As we are here concerned in the distribution of that value, which represents the total labor newly added per year, the working day may here be regarded as a constant magnitude, and is taken for granted as such, no matter how much or how little it may differ from its physical maximum. The absolute limit of that portion of value, which forms surplus-value, and which resolves itself into profit and ground-rent, is thus given. It is determined by the excess of the unpaid portion of the working day over its paid portion, which means by that portion of the value of the total product, in which this surplus labor is realized. If we call the surplus-value thus limited and calculated on the advanced total capital the profit, as I have done, then this profit, so far as its absolute magnitude is concerned, is equal to the surplus-value and, therefore, determined in its boundaries by the same laws as it. On the other hand, the level of the rate of profit is likewise a magnitude inclosed within certain limits by the value of commodities. This rate is the proportion of the total surplus-value to the total social capital advanced in production. If this capital is equal to 500 (say millions) and the surplus-value equal to 100, then 20% form the absolute limit of the rate of profit. The distribution of the social profit at this rate among the various capitals invested in the different spheres of

production creates prices of production, which swerve from the values of commodities, and these prices of production are the real regulating average market prices. But this deviation of prices of production from values abolishes neither the determination of prices by values nor the lawful limits of profit. Instead of the value of a commodity being equal to the capital consumed in it plus the surplus-value contained in it, its price of production is then equal to the capital, k, consumed in it plus the surplus-value falling to its share as a result of the average rate of profit, for instance 20% of the capital advanced in its production, counting both the consumed and the merely employed capital. But this addition of 20% is itself determined by the surplus-value created by the total social capital, and by its proportion to the value of this capital; and for this reason it is 20% and not 10% or 100%. The transformation of the values into prices of production, then, does not abolish the limits of profit, but merely alters its distribution among the various particular capitals, which make up the total social capital, distributes it uniformly among them in the proportion in which they form parts of the value of this total capital. The market prices fall below or rise above these regulating prices of production, but these fluctuations balance each other. If one studies price lists during a certain long period, and if one subtracts the cases, in which the real value of commodities is altered by a change in the productivity of labor, and likewise the cases, in which the process of production has been previously disturbed by natural or social accidents, one will be surprised, in the first place, by the relatively

narrow limits of the fluctuations, and, in the second place, by the regularity of their mutual compensation. The same domination of the regulating averages will be found here, which Quételet pointed out in the case of social phenomena. If the equalization of the values of commodities into prices of production does not meet any obstacles, then the rent resolves itself into differential rent, that is, it is limited to the equalization of the surplus-profits, which would be given to some of the capitalists by the regulating prices of production, but which are then appropriated by the landlords. Here, then, the rent has its definite limit of value in the fluctuations of the individual rates of profit, which are caused by the regulation of the prices of production through the general rate of profit. If private ownership of land places obstacles in the way of the equalization of the values of commodities into prices of production, and appropriates absolute rent, then this absolute rent is limited by the excess of the value of the products of the soil over their prices of production, that is, by the excess of the surplus-value in them over the rate of profit assigned to the capitals by the average rate of profit. This difference then forms the limit of the rent, which is always but a certain portion of surplus-value produced and existing in the commodities.
VII.L.18

Finally, if the equalization of the surplus-value into average profit meets with obstacles in the various spheres of production in the shape of artificial or natural monopolies, particularly of monopoly in

land, so that a monopoly price would be possible, which would rise above the price of production and above the value of the commodities affected by such a monopoly, still the limits imposed by the value of commodities would not be abolished thereby. The monopoly price of certain commodities would merely transfer a portion of the profit of the other producers of commodities to the commodities with a monopoly price. A local disturbance in the distribution of the surplus-value among the various spheres of production would take place indirectly, but they would leave the boundaries of the surplus-value itself unaltered. If a commodity with a monopoly price should enter into the necessary consumption of the laborer, it would increase the wages and thereby reduce the surplus-value, if the laborer would receive the value of his labor-power, the same as before. But such a commodity might also depress wages below the value of labor-power, of course only to the extent that wages would be higher than the physical minimum of subsistence. In this case the monopoly price would be paid by a deduction from the real wages (that is, from the quantity of use-values received by the laborer for the same quantity of labor) and from the profit of the other capitalists. The limits, within which the monopoly price would affect the normal regulation of the prices of commodities, would be accurately fixed and could be closely calculated.

VII.L.19

Just as the division of the newly added value of commodities into necessary and surplus labor, wages and surplus-value, and its general division between revenues, finds its given and regulating limits, so the division of the surplus-value itself into profit and ground-rent finds its limit in the laws regulating the equalization of the rate of profit. In the division into interest and profits of enterprise the average profit itself forms the limit for both of them. It furnishes the given magnitude of value, which they may divide among themselves and which is the only one that they can so divide. The definite proportion of this division is here accidental, that is, it is determined exclusively by conditions of competition. Whereas in other cases the balancing of supply and demand implies the cessation of the deviation of market prices from their regulating average prices, that is, the cessation of the influence of competition, it is here the only determinant. But why? Because the same factor in production, the capital, has to divide its share of the surplus-value between two owners of the same factor in production. But the fact that no definite, lawful, limit for the division of the average profit is found, does not do away with its limit as a part of the value of commodities, any more than the fact that two partners in a certain business, being under the influence of different circumstances, divide their profit unequally, affects the limits of this profit in any way.

VII.L.20

Hence, although that portion of the value of commodities, in which the value of the new labor added to the means of production is incorporated, is divided into different parts, which assume independent forms as revenues, this is no reason why wages, profit and ground-rent should be considered as constituting elements, whose addition, or sum, would be the source of the regulating price of commodities (natural price, prix nécessaire); it is no reason to think that not the value of commodities, after the subtraction of the constant portion of value, is the original unit separated into these three parts, but rather the price of each one of these three parts is independently determined, and that the price of commodities is then formed by an addition of these three independent magnitudes. In reality the value of commodities is the magnitude which exists first, and it comprises the sum of the total values of wages, profit and rent, whatever may be their relative magnitudes. In the wrong conception, wages, profit and rent are three independent magnitudes of value, whose total magnitude is supposed to produce the magnitude of the value of a commodity, to limit and to determine it.
VII.L.21

In the first place it is evident that, if wages, profit and rent constitute the price of commodities, this would apply as much to the constant portion of the value of commodities as to the other portion, in which variable capital and surplus-value are incorporated. This constant portion may here be left entirely out of consideration, since the value

of the commodities of which it is made up would likewise resolve itself into wages, profit and rent. We have already shown that this conception denies the existence of such a constant portion of value. VII.L.22

It is furthermore evident that all meaning of value is here eliminated. Only the conception of price remains, in the sense that a certain amount of money is paid to the owners of labor-power, capital and land. But what is money? Money is not a thing, but a definite form of value, hence it is again conditioned upon value. Let us say, then, that a definite amount of gold or silver is paid for those elements of production, or that they are equalled in our minds to this amount. But gold and silver (and the enlightened economist is proud of this understanding) are themselves commodities, like all others. The price of gold and silver is therefore likewise determined by wages, profit and rent. Hence we cannot determine what wages, profit and rent are, by making them equal to a certain amount of gold or silver, for the value of this gold and silver, by which they are supposed to be estimated as equivalents, is precisely supposed to be determined by them, independently of gold and silver, that is, independently of the value of any commodity, for this value is supposed to be the product of those three. To say that the value of wages, profit and rent consist in their being equivalent to a certain quantity of gold and silver, would merely be the same as saying that they are equal to a certain quantity of wages, profit and rent.

VII.L.23

Take wages first. For it is necessary to make labor the point of departure, even in this view of the matter. How, then, is the regulating price of wages determined, the price around which its market prices oscillate?
VII.L.24

Let us reply that it is determined by the demand and supply of labor-power. But what sort of a demand is this? It is a demand made by capital. The demand for labor is therefore at the same time a supply of capital. In order to speak of a supply of capital, we should know above all what capital is. What is capital made of? If we select its simplest forms, it consists of money and commodities. But money is merely a form of commodities. Capital, then, consists of commodities. But the value of commodities, according to our assumption, is first determined by the price of the labor producing them, by wages. The existence of wages is here a prerequisite and is considered as a constituting element of the price of commodities. Now this price is to be determined by the proportion of the supplied labor to capital. The price of the capital itself is equal to the price of the commodities of which it is composed. The demand of capital for labor is equal to the supply of capital. And the supply of capital is equal to the supply of a quantity of commodities of a given price, and this price is regulated in the first place by the price of labor, and the price of labor in its turn

is equal to that portion of the price of commodities, which makes up the variable capital, which is transferred to the laborer in exchange for his labor; and the price of the commodities, of which this variable capital is composed, is in its turn primarily determined by the price of labor; for it is determined by the prices of wages, profit and rent. In order to determine wages, we cannot, therefore, assume the previous existence of capital, for the value of the capital is itself determined in part by wages.
VII.L.25

Besides, the dragging of competition into this problem does not help any. Competition makes the market prices of labor rise and fall. But suppose that the demand and supply of labor are balanced. What determines wages in that case? Competition. But we have just assumed that competition ceases to act as a determinant, that it abolishes its effects by the equilibrium of its two opposing forces. We are precisely trying to find the natural price of wages, that is, the price of labor not regulated by competition, but which, on the contrary, regulates it.
VII.L.26

Nothing remains but to determine the necessary price of labor by the necessary subsistence of the laborer. But these articles of food are commodities, which have a price. The price of labor is therefore determined by the price of the necessary means of existence, and the

price of the means of existence, like that of all other commodities, is determined primarily by the price of labor. Therefore the price of labor determined by the price of the means of existence is determined by the price of labor. The price of labor is determined by itself. In other words, we do not know by what the price of labor is determined. Labor in this case has any price at all, because it is considered as a commodity. In order, therefore, to speak of the price of labor, we must know what price itself means. But what price itself is, we do not learn in this way at all.
VII.L.27

But let us assume, that the necessary price of labor had been determined in this agreeable manner. Then how is the average profit determined, the profit of every capital in normal conditions, which forms the second element of the price of commodities? The average profit must be determined by an average rate of profit; how is this rate determined? By the competition between the capitalists? But this competition itself is conditioned upon the existence of profit. It presupposes the existence of different rates of profit, and thus of different profits, either in the same, or in different spheres of production. Competition can influence the rate of profit only to the extent that it affects the prices of commodities. Competition can merely make the producers within the same sphere of production sell their commodities at the same prices, and make them sell their commodities in different spheres of production at prices which will give

them the same profit, will give them the same proportional addition to the price of commodities, which has already been partially determined by wages. Hence competition cannot balance anything but inequalities in the rate of profit. In order to balance unequal rates of profit, the profit as an element in the price of commodities must already exist. Competition does not create it. It lowers or raises its level, but it does not create this level, which appears whenever the balance has been struck. And when we speak of a necessary rate of profit, we wish precisely to know the rate of profit which is independent of the movements of competition, and which rather regulates these movements. The average rate of profit appears, when the forces of the competing capitalists balance each other. Competition may bring about this balance, but cannot create the rate of profit which appears whenever this balance is found. As soon as the equilibrium is reached, why is the rate of profit 10, or 20, or 100%? On account of competition? No, on the contrary, competition has done away with the causes, which produced deviations from the rate of 10, or 20, or 100%. It has brought about a price of commodities, by which every capital yields the same profit in proportion to its magnitude. The magnitude of this profit itself is independent of it. It merely reduces all deviations to this magnitude. One man competes with another, and competition compels him to sell his commodities at the same price as the other. But why is this price 10 or 20 or 100%?
VII.L.28

Nothing remains under these circumstances but to declare that the rate of profit, and with it the profit itself arises in some unaccountable manner by a certain addition to the price of commodities, which to that extent was determined by the wages. The only thing which competition tells us is that this rate of profit must have a certain figure. But we knew that before, when we spoke of an average rate of profit and of a "necessary price" of profit.
VII.L.29

It is quite unnecessary to thrash this absurd process over in the case of ground-rent. It is evident, even so, that it, logically pursued, makes profit and rent appear as additions made by unaccountable laws to the price of commodities, which is primarily determined by wages. In short, competition has to shoulder the duty of explaining all inexplicable ideas of the economists, whereas the economists should rather explain competition.
VII.L.30

Now, if we leave aside the illusion of a profit and rent created by the circulation, that is of parts of price arising through sale‘for circulation can never give what it did not first receive‘the matter simply amounts to this:
VII.L.31

Let the price of a commodity determined by wages be 100; let the rate of profit be 10% of the wages, and the rent 15% of the wages. Then the price of the commodity determined by wages, profit and rent is 125. These added 25 cannot come from the sale of this commodity. For all sellers sell to each other at 125 what has actually cost only 100 in wages, and the result is the same as though they had all sold at 100. The operation must rather be studied independently of the process of circulation.
VII.L.32

If the three revenues share the commodity itself, which now costs 125 ‘and it does not alter the matter, if the capitalist should first sell at 125, then pay 100 to the laborer, 10 to himself, and 15 to the landlord‘then the laborer receives 4/5, equal to 100, of the value and of the product. The capitalist receives 2/25 of the value and of the product, and the landlord 3/25. When the capitalist sells at 125, instead of at 100, he merely gives to the laborer 4/5 of the product, in which his labor is incorporated. This would be the same, if he had given 80 to the laborer and kept back 20, of which he would share 8 and the landlord 12. In this case he would have sold the commodity at its value, since in fact the additions to the price of the commodity are made independently of the value of the commodity, which is assumed to be determined here by the value of labor-power. This amounts in a roundabout way to saying that in this conception the term wages, here 100, is equal to the value of the product, that is,

equal to that sum of money, in which the same definite quantity of labor is represented; but that this value again differs from the real wages and therefore leaves a surplus. Only, in the present case, this is obtained nominally by an addition to the price. Hence, if the wages were 110 instead of 100, the profit would have to be 11 and the ground-rent 16½, so that the price of the commodity would be 137½. This would leave the proportion unaltered. But as the division would always be obtained by a nominal addition of definite percentages to the wages, the price would rise and fall with the wages. The wages are here first assumed as equal to the value of the commodity, and then again separated from it. In fact, however, the matter amounts in a roundabout and meaningless way to this, that the value of the commodity is determined by the quantity of labor contained in it, whereas the value of wages is determined by the price of the necessities of life, and the surplus of value above the wages forms profit and rent.

VII.L.33

The separation of the value of commodities, after the subtraction of the value of the means of production consumed in their creation, this separation of this given quantity of value determined by the quantity of labor incorporated in the produced commodities into three parts, namely into wages, profit and rent, which assume the shape of independent and mutually unrelated revenues, this same separation

appears on the surface of capitalist production, and consequently in the minds of the agents bounded by it, in an inverted form.
VII.L.34

Let the total value of a certain commodity be 300, of which 200 may be the value of the means of production, or elements of constant capital, consumed in its production. This leaves 100 as the amount of the new value added to this commodity in its process of production. This new value of 100 is all that is available for division among these three forms of revenue. Let us place the figure for wages at x, for profit at y, for ground-rent at z, then the sum of x + y + z will always be 100 in our present case. In the conception of the industrials, merchants and bankers, as in that of the vulgar economists, matters are supposed to pass in an entirely different way. According to them it is not the value of the commodity, which equals 100 after subtracting the value of the means of production consumed in it, nor is it this 100 which is divided into x, y and z. According to them it is rather the price of the commodity, which is composed of wages, profit and rent, whose figures of value are determined independently of the value of this commodity and independently of each other, so that x, y and z exist independently, each by itself and is so determined, while the sum of these magnitudes, which may be larger or smaller than 100, makes up the value of the commodity by adding these three different values together. This case of mistaken identity is necessary:

VII.L.35

1) Because the component parts of value in the commodities face each other as independent revenues, which are referred back as such to three very dissimilar agencies in production, namely to labor, capital and land, and which then seem to arise out of these. The ownership of labor-power, of capital, of land, is the cause, which assigns these different parts of the value of commodities to these respective owners, and transforms these parts into revenue for them. But the value does not arise from a transformation of its parts into revenue, it must rather exist before it can be converted into revenue, before it can assume this form. The appearance of the reverse must fortify itself so much the more, as the determination of the relative magnitude of these three parts follows different laws, whose connection with and limitation by the value of commodities themselves does not show itself on the surface by any means.

VII.L.36

2) We have seen that a general rise or fall of wages, by causing a movement in the opposite direction on the part of the average rate of profit, so long as other circumstances remain the same, changes the prices of production of the different commodities, raises some and lowers others, according to the average composition of the capital in the respective spheres of production. There is no doubt that at least in some spheres of production the experience is made, that the

average price of a commodity rises, because wages have risen, and falls, because wages have fallen. What is not "experienced" is the secret regulation of this change by the value of commodities, which is independent of wages. But if the rise of wages is local, if it takes place only in particular spheres of production in consequence of peculiar circumstances, then a corresponding nominal raise of prices may occur in the case of these commodities. The rise of the relative value of one kind of commodities as against others, which have been produced with an unchanged scale of wages, is then merely a reaction against the local disturbance of a uniform distribution of surplus-value among the various spheres of production, a means of leveling particular rates of profit into an average rate. The "experience," which is met in that case, is once more the determination of the price by the wages. In both these cases, the same experience shows that the wages determine the prices of commodities. What is not "experienced," is the hidden cause of this interrelation. Furthermore: The average price of labor, that is, the value of labor-power, is determined by the price of production of the necessary articles of subsistence. If the price of these falls, so does that of those. What is once more experienced here, is the existence of a connection between wages and the price of commodities. But the cause may seem to be an effect, and the effect a cause, as is also the case in the movements of market prices, where a rise of wages above its average corresponds to the rise of the market prices above the prices of production during periods of prosperity, and subsequent fall of wages

below their average corresponds to a fall of market prices below the prices of production. Owing to the dependence of prices of production upon the values of commodities, the primary experience, aside from the oscillating movements of the market prices, should always be that the rate of profit falls whenever wages rise, and vice versa. But we have seen that the rate of profit may be determined by the movements of the value of constant capital, independently of the movements of wages; so that wages and the rate of profit, instead of moving in opposite directions, move in the same direction, and may rise or fall together. If the rate of surplus-value were directly identical with the rate of profit, then this could not happen. Even if wages should rise as a result of a rise in the prices of foodstuffs, the rate of profit may remain the same, or may even rise, owing to a greater intensity of labor or a prolongation of the working day. All these experiences corroborate the illusion created by the apparently independent and reversed form of the parts of value, as though either the wages alone, or wages and profit together determined the value of commodities. As soon as this seems to be the case with reference to wages, so that the price of labor and the value created by labor seem to coincide, the same applies as a matter of course to profit and rent. Their prices, that is, their expression in money, must then seem to be regulated independently of labor and of the value produced by it.

VII.L.37

3) Let us assume that the values of commodities, or the apparently independent prices of production, coincide seemingly directly and continually with the market prices of commodities, instead of merely enforcing themselves as the regulating average prices by the continual balancing of the fluctuations of market prices. Let us assume, furthermore, that reproduction always takes place under the same unaltered conditions, so that the productivity of labor remains constant in all elements of capital. Finally, let us assume that that portion of the value of the produced commodities, which is formed in every sphere of production by the addition of a new quantity of labor, or by the addition of a newly produced value to the value of the means of production, is always divided according to the same unaltered proportion into wages, profit and rent, so that the actually paid wages, the actually realized profit, and the actual rent always directly coincides with the value of labor-power, with that portion of the total surplus-value which falls to the share of every active part of total capital by means of the average rate of profit, and with the limits, in which ground-rent is normally held upon this basis. In one word, let us assume that the division of the produced social values and the regulation of the prices of production takes place on a capitalist basis, but that competition is abolished.
VII.L.38

Under these assumptions, then, under which the value of commodities would be constant and would appear so, under which that part of the

value of commodities which resolves itself into revenues would remain a constant magnitude and would always present itself as such, and under which, finally, this given and constant part of value would always be divided according to constant proportions into wages, profit and rent, even under these assumptions would the real movement necessarily appear in an inverted form: not as a division of a previously given quantity of value into three parts, which assume mutually independent forms of revenue, but on the contrary, as the formation of this quantity of value by the sum of the independent and selfdetermined elements of wages, profit and rent, of which it is composed. This illusion would necessarily arise, because in the actual movement of the individual capitals and of the commodities produced by them not the value of the commodities would seem to precede their division, but vice versa, the parts into which it is divided would seem to exist before the value of the commodities. In the first place we have seen that to every capitalist the cost price of his commodities appears as a given magnitude and continually presents itself as such in the actual price of production. But the cost price is equal to the value of the constant capital, the advanced means of production, plus the value of labor-power, which, however, presents itself to the agent in production in the irrational shape of a price of labor, so that the wages appear at the same time as a revenue for the laborer. The average price of labor is a given magnitude, because the value of labor-power, like that of any other commodity, is determined by the labor time required for its reproduction. But as

concerns that portion of the value of commodities, which resolves itself into wages, it does not arise from the fact that it assumes this form of wages, nor from the fact that the capitalist advances to the laborer his share of his own product in the shape of wages, but from the fact that the laborer produces an equivalent for his wages, that is, that a portion of his daily or annual labor produces the value contained in the price of his labor-power. But the wages are stipulated by contract, before the value equivalent to them has been produced. As an element of price, whose magnitude is given before the commodity and its value have been produced, as a constituent part of the cost price, wages do not appear as a part which detaches itself in an independent form from the total value of the commodity, but rather as a given magnitude, which predetermines this value, a creator of price or value. A role similar to that of wages in the cost price of commodities is played by the average profit in their price of production, for the price of production is equal to the cost price plus the average profit on the advanced capital. This average profit figures practically, in the conception and in the calculation of the capitalist himself, as a regulating element, not merely to the extent that it determines the transfer of the capitals from one sphere of investment into another, but also in all sales and contracts, which embrace a process of reproduction extending over long epochs. But whenever it figures in this way, it is a previously existing magnitude, which is in fact independent of the value and surplus-value produced in any particular sphere of production, and still more independent of the

value and surplus-value produced by any individual investment of capital in any sphere of production. It does not present itself as a result of a division of value, but rather as a magnitude independent of the value of the produced commodities, as existing from the start and determining the average price of the commodities, that is, as a creator of value. Indeed, the surplus-value, owing to its separation into various and mutually unrelated parts, appears in a still more concrete form as a prerequisite for the creation of the value of commodities. A part of the average profit, in the form of interest, faces the capitalist independently as an element preceding the production of commodities and of their value. Although the fluctuations of the amount of interest are considerable, yet at any specific moment it is a given magnitude for every capitalist, and it enters into the cost price of the commodities produced by any individual capitalist. So does also the ground-rent in the form of lease money fixed by contract in the case of the agricultural capitalist, and in the form of rent for business rooms in the case of other business men. These parts, into which surplus-value is divided, being given as elements of cost price for the individual capitalist, appear for this reason inversely as creators of surplus-value; they appear as creators of a portion of the price of commodities, just as wages appear as the creator of the other portion. The secret of the continual reappearance of these divided parts of commodity value in the role of prerequisites for the formation of value itself is simply this, that the capitalist mode of production, like any other, does not merely always reproduce the material product,

but also the economic conditions, the definite economic forms of its creation. Its result, therefore, appears as continually as its prerequisites, as its prerequisites appear in the role of its results. And it is this continual reproduction of the same conditions, which the individual capital anticipates in a matter of fact way as an indubitable fact. So long as the capitalist mode of production persists as such, a portion of the newly added labor resolves itself continually into wages, another into profit (interest and profit of enterprise), and a third into rent. In the contracts between the owners of the various agencies of production this is always assumed, and this assumption is correct, no matter how much the relative proportions may fluctuate in individual cases. The definite shape, in which the parts of value face each other, is assumed as pre-existing, because it is continually reproduced, and it is continually reproduced, because it is continually taken for granted. VII.L.39

It is true, that both experience and the appearance of things demonstrate the fact that the market prices, whose influence seems to the capitalist to be indeed the whole thing in the determination of values, are by no means dependent upon these anticipations, so far as their amount is concerned. They are not governed by any contracts demanding a high or a low rent and interest. But the market prices are constant only in their changes, and their average for a certain long period results in the respective averages of wages, profit and

rent as magnitudes dominating the constant ones, such as the market prices, in the last analysis.
VII.L.40

On the other hand, it seems like a simple reflection, that if wages, profit and rent are creators of value for the reason that they seem to precede the production of value, and that they are taken for granted by the individual capitalist in his cost price and price of production, then the constant portion of value, whose value enters as a given quantity into the production of every commodity, is also a creator of value. But the constant portion of value is nothing but a quantity of commodities and, therefore, of values of commodities. Thus we should arrive at the absurd tautology that the value of commodities is the creator and cause of the value of commodities.
VII.L.41

If the capitalist were interested in reflecting about this‘and his reflections as a capitalist are dictated exclusively by his interests and his interested motives‘his experience would show him, that the product, which he himself produces, passes over into other spheres of production as a constant part of capital, and that products of these other spheres of production pass over into his own product as constant parts of capital. Owing to the fact that the additional value of his own new production, from his point of view, seems to be formed by means of wages, profit and rent, the same appearance

holds good also in the case of the constant portion consisting of products of other capitalists. And so the price of the constant portion of capital, and with it the total value of the commodities, reduces itself in the last resort, although in a somewhat unaccountable manner, to a sum of values resulting from the addition of the independent creators of value, wages, profit and rent, which are regulated by different laws and come from different sources. VII.L.42

4) Whether the commodities are sold, or not sold, at their values, whether their value is determined in one way or another, is quite immaterial for the individual capitalist. This determination of values is from the very outset a process passing behind his back and controlled by conditions independent of himself, because it is not the values, but the divergent prices of production, which form the regulating average prices in every sphere of production. The determination of values as such, interests and influences the individual capitalist and the capital in each sphere of production only to the extent that the reduced or increased quantity of labor required in accordance with the rise or fall of the productive power of labor, enables him in one case to make an extra profit, and compels him in another to raise the price of his commodities, because an additional amount of wages, an additional amount of constant capital, and consequently some more interest, fall upon each individual part of the product, or upon the individual commodities. This determination of values interests him only to the

extent that it raises or lowers the cost of production of commodities for himself, in other words, only to the extent that it places him in an exceptional position.
VII.L.43

On the other hand, wages, interest and rent appear to him as regulating boundaries, not only of the price at which he can realize the profit of enterprise, that is, the profit falling to his share in his capacity as a producing capitalist, but also of the price at which he must be able to sell his commodities, if he is to keep his reproduction going at all. It is quite immaterial for him, whether he realises the value and surplus-value in his commodities by their sale, provided only that he gets the customary profit or enterprise or more than that, so long as he pockets this surplus over and above the individual cost price determined for him by wages, interest and rent. Aside from the constant portion of capital, wages, interest and rent appear to him, therefore, as the limiting, creating, determining elements of the price of commodities. For instance, if he can succeed in depressing wages below their normal level, below the value of labor-power, if he can obtain capital at a lower rate of interest, if he can pay less than the normal amount for rent, then he does not care, whether he sells his product below its value, or even below its price of production, so that he gives away without any equivalent a portion of the surplus-value contained in the commodities. This applies even to the constant portion of capital. For instance, if an industrial capitalist can buy his

raw material below its price of production, then this protects him against loss, even if he sells it in his own finished product under its price of production. His profit of enterprise may remain the same, or may even increase, so long as the excess of the price of commodities over its elements remains the same or increases. But aside from the value of the means of production, which enter into his own production with a given price, it is precisely wages, interest and rent which enter into this production as limiting and regulating amounts of price. Consequently they appear to him as elements determining the price of commodities. The profit of enterprise, from his point of view, seems determined either by the excess of the market prices, dependent upon accidental conditions of competition, over the immanent value of commodities determined by those elements of price. Or, to the extent that this profit itself exerts a determining influence upon market prices, it seems itself dependent upon the competition between buyers and sellers.

VII.L.44

In the competition, both of the individual capitalists among themselves and in the competition on the world market, it is the given and presupposed magnitudes of wages, interest and rent which enter into the calculation as constant and regulating magnitudes. They are constant, not in the sense of being unalterable magnitudes, but in the sense that they are given in any individual case and that they form the constant boundary for the continually fluctuating market prices. For

instance, in the competition on the world market the question is exclusively as to whether the commodities can be sold at, or below, the existing world market prices with a profit, as to whether, with the existing wages, interest and rent a corresponding profit of enterprise can be realized. If the wages and the price of land are low in a certain country, while the interest on capital is high, because the capitalist mode of production has not been developed in it, whereas in some other country the wage and the price of land are nominally high, while the interest on capital is low, then the capitalist employs in the one country more labor and land, in the other relatively more capital. These factors enter as determining elements into the calculation by which the degree of possible competition between these two countries is estimated. Here, then, experience shows theoretically, and the interested calculation of the capitalist shows practically, that the prices of commodities are determined by wages, interest and rent, by the price of labor, of capital and of land, and that these elements of price are indeed the regulating factors of price.
VII.L.45

Of course, this always leaves an element which is not assumed as pre-existing, but which rather results from the market price of commodities, namely the surplus above the cost price formed by the addition of these elements, namely of wages, interest and rent. This fourth element seems to be determined in every individual case by competition, and in the long average of cases by the average profit,

which in its turn is regulated by this same competition, only at longer intervals.
VII.L.46

5) On the basis of capitalist competition it becomes so much a matter of course to separate the value, in which the newly added labor is represented, into the forms of revenue known as wages, profit and ground-rent, that this method is applied (not to mention past stages of history, of which we gave illustrations under the head of ground-rent) even in cases, in which the conditions required for those forms of revenue are missing. In other words, everything is counted under these heads by analogy.
VII.L.47

If an independent laborer‘for instance, a small farmer, in whose case all three forms of revenue may be used‘works for himself and sells his own product, he is, in the first place, considered as his own employer (capitalist), who employs himself as a laborer, and as his own landlord, who employs himself as his own tenant. To himself as a wage worker he pays his wages, to himself as a capitalist he turns over his profit, and to himself as a landlord he pays his rent. Assuming the capitalist mode of production and the conditions corresponding to it to be the general basis of society, this conception is correct, in so far as he does not owe it to his labor, but to his ownership of means of production‘which have here assumed the

general form of capital‘that he is able to appropriate his own surplus labor. And furthermore, to the extent that he creates his own product in the shape of commodities, and thus depends upon its price (and even if he does not depend upon it, this price can be estimated), the quantity of surplus labor, which he can realize, does not depend upon its own size, but upon the general rate of profit; and in like manner any surplus above the amount of surplus-value allowed by the general rate of profit is not determined by the quantity of labor performed by himself, but can be appropriated by him only because he is the owner of the land. Because a form of production not corresponding to the capitalist mode of production may thus be brought in line with its forms of revenue‘and to a certain extent not incorrectly‘the illusion is strengthened so much the more that the capitalist conditions are the natural conditions of any mode of production.
VII.L.48

On the other hand, if we reduce the wages to their general basis, namely to that portion of the product of the producer's own labor which passes over into the individual consumption of the laborer; if we relieve this portion of its capitalist limitations and extend it to that volume of consumption, which is permitted, on the one hand, by the existing productivity of society (that is the social productivity of his own individual labor in its capacity as a truly social one), and on the other hand, required by the full development of his individuality; if we reduce the surplus labor and the surplus product to that measure,

which is required under the existing conditions of social production, on the one hand for the formation of an insurance and reserve fund, and on the other hand for the continuous expansion of reproduction to an extent dictated by social needs; finally, if we include in number one, necessary labor, and number two, surplus labor, that quantity of labor, which must always be performed by the ablebodied for the incapacitated or immature members of society, in other words, if we deprive both wages and surplus-value, both necessary and surplus labor, of their specifically capitalist character, then we have not these forms, but merely their foundations, which are common to all social modes of production.
VII.L.49

Moreover, this manner of generalizing was also used in previous modes of production, for instance, in the feudal one. Conditions of production, which did not correspond to it at all, which stood entirely outside of it, were counted in as feudal relations. This was done, for instance, in England, in the case of tenures in common socage (as distinguished from tenures on knight's service), which comprised merely monetary obligations and were feudal in name only.

Notes for this chapter

151.

In separating the value added to the constant portion of value into wages, profit and ground rent, it is a matter of course that these are portions of value. One may, indeed conceive them as existing in the direct product created by laborers and capitalists in some particular sphere of production, for instance, yarn produced in a spinnery. But in fact they do not materialize in this product any more or any less than in any other commodity, in any other part of the material wealth having the same value. And in practice wages are paid in money, that is, in the pure form of value; likewise interest and rent. For the capitalist, the transformation of his product into the pure expression of value is indeed very important; in the distribution itself its existence is already assumed. Whether these values are reconverted into the same product, out of whose production they arose, whether the laborer buys back a part of the product directly produced by himself or the product of some other labor of a different kind, has nothing to do with the matter itself. Mr. Rodbertus quite unnecessarily goes into a passion about this.

152.

"It will be sufficient to remark that the same general rule, which regulates the value of raw produce and manufactured commodities, is applicable also to the metals; their value depending not on the rate of profits, nor on the rate of wages, nor on the rent paid for mines, but on the total quantity of labor necessary to obtain the metal and to bring it to market." (Ricardo Principles, Chapter III, p. 77.)

Part VII,

Volume III Chapter LI. CONDITIONS OF DISTRIBUTION AND PRODUCTION.

VII.LI.1

THE new value added by the annual new labor‘and thus also that portion of the annual product, in which this value is represented and may be drawn out of the total fund and separated from it‘is divided into three parts, which assume three different forms of revenue. These forms indicate that one portion of this value belongs, or goes to, the owner of labor-power, another portion to the owner of capital, and a third portion to the owner of land. These, then are forms, or conditions, of distribution, for they express conditions, under which the newly produced total value is distributed among the owners of the different agencies of production.

VII.LI.2

To the ordinary mind these conditions of distribution appear as natural conditions, as conditions arising from the nature of all social production, from the laws of human production in general. While it cannot be denied that precapitalist societies show other modes of distribution, yet those modes are interpreted as undeveloped,

imperfect, disguised, differently colored modes of these natural conditions of distribution, which have not reached their purest expression and their highest form.
VII.LI.3

The only correct thing in this conception is this: Assuming some form of social production to exist (for instance, that of the primitive Indian communes, or that of the more artificially developed communism of the Peruvians), a distinction can always be made between that portion of labor, which supplies products directly for the individual consumption of the producers and their families‘aside from the part which is productively consumed‘and that portion of labor, which produces surplus products, which always serve for the satisfaction of social needs, no matter what may be the mode of distribution of this surplus product, and whoever may perform the function of a representative of these social needs. The identity of the various modes of distribution amounts merely to this, that they are identical, if we leave out of consideration their differences and specific forms and keep in mind only their common features as distinguished from their differences.
VII.LI.4

A more advanced, more critical mind, however, admits the historically developed character of the condition of distribution,*153 but clings on the other hand so much more tenaciously to the unaltering character

of the conditions of production arising from human nature and thus independent of all historical development.
VII.LI.5

On the other hand, the scientific analysis of the capitalist mode of production demonstrates that it is a peculiar mode of production, specifically defined by historical development; that it, like any other definite mode of production, is conditioned upon a certain stage of social productivity and upon the historically developed form of the forces of production. This historical prerequisite is itself the historical result and product of a preceding process, from which the new mode of production takes its departure as from its given foundation. The conditions of production corresponding to this specific, historically determined, mode of production have a specific, historical, passing character, and men enter into them as into their process of social life, the process by which they create their social life. The conditions of distribution are essentially identical with these conditions of production, being their reverse side, so that both conditions share the same historical and passing character.
VII.LI.6

In the study of conditions of distribution, the start is made from the alleged fact, that the annual product is distributed among wages, profit and rent. But if so expressed, it is a misstatement. The product is assigned on one side to capital, on the other to revenues. One of

these revenues, wages, never assumes the form of a revenue, a revenue of the laborer, until it has first faced this laborer in the form of capital. The meeting of the produced requirement of labor and of the general products of labor as capital, in opposition to the direct producers, includes from the outset a definite social character of the material requirements of labor as compared to the laborers, and with it a definite relation, into which they enter in production itself with the owners of the means of production and among themselves. The transformation of these means of production into capital implies on their part the expropriation of the direct producers from the soil, and thus a definite form of property in land.
VII.LI.7

If one portion of the product were not transformed into capital, the other would not assume the form of wages, profit and rent.
VII.LI.8

On the other hand, just as the capitalist mode of production is conditioned upon this definite social form of the conditions of production, so it reproduces them continually. It produces not merely the material products, but reproduces continually the conditions of production, in which the others are produced, and with them the corresponding conditions of distribution.
VII.LI.9

It may indeed be said that capital (and the ownership of land implied by it) is itself conditioned upon a certain mode of distribution, namely the expropriation of the laborers from the means of production, the concentration of these conditions in the hands of a minority of individuals, the exclusive ownership of land by other individuals, in short, all those conditions, which have been described in the Part dealing with Primitive Accumulation (Volume I. Chapter XXVI). But this distribution differs considerably from the meaning of "conditions of distribution," provided we invest them with a historical character in opposition to conditions of production. By the first kind of distribution is meant the various titles to that portion of the product, which goes into individual consumption. By conditions of distribution, on the other hand, we mean the foundations of specific social functions performed within the conditions of production themselves by special agents in opposition to the direct producers. They imbue the conditions of production themselves and their representatives with a specific social quality. They determine the entire character and the entire movement of production.
VII.LI.10

Capitalist production is marked from the outset by two peculiar traits.
VII.LI.11

1) It produces its products as commodities. The fact that it produces commodities does not distinguish it from other modes of production.

Its peculiar mark is that the prevailing and determining character of its products is that of being commodities. This implies, in the first place, that the laborer himself acts in the role of a seller of commodities, as a free wage worker, so that wage labor is the typical character of labor. In view of the foregoing analyses it is not necessary to demonstrate again, that the relation between wage labor and capital determines the entire character of the mode of production. The principal agents of this mode of production itself, the capitalist and the wage worker, are to that extent merely personifications of capital and wage labor. They are definite social characters, assigned to individuals by the process of social production. They are products of these definite social conditions of production.
VII.LI.12

The character, first of the product as a commodity, secondly of the commodity as a product of capital, implies all conditions of circulation, that is, a definite social process through which the products must pass and in which they assume definite social forms. It also implies definite relations of the agents in production, by which the formation of value in the product and its reconversion, either into means of subsistence or into means of production, is determined. But aside from this, the two above-named characters of the product as commodities, and of commodities as products of capital, dominate the entire determination of value and the regulation of the whole production by value. In this specific form of value, labor appears on the one hand only as social

labor; on the other hand, the distribution of this social labor and the mutual supplementing and circulation of matter in the products, the subordination under the social activity and the entrance into it, are left to the accidental and mutually nullifying initiative of the individual capitalists. Since these meet one another only as owners of commodities, and every one seeks to sell his commodity as dearly as possible (being apparently guided in the regulation of his production by his own arbitrary will), the internal law enforces itself merely by means of their competition, by their mutual pressure upon each other, by means of which the various deviations are balanced. Only as an internal law, and from the point of view of the individual agents as a blind law, does the law of value exert its influence here and maintain the social equilibrium of production in the turmoil of its accidental fluctuations.
VII.LI.13

Furthermore, the existence of commodities, and still more of commodities as products of capital, implies the externalization of the conditions of social production and the personification of the material foundations of production, which characterize the entire capitalist mode of production.
VII.LI.14

2) The other specific mark of the capitalist mode of production is the production of surplus-value as the direct aim and determining incentive

of production. Capital produces essentially capital, and does so only to the extent that it produces surplus-value. We have seen in our discussion of relative surplus-value, and in the discussion of the transformation of surplus-value into profit, that a mode of production peculiar to the capitalist period is founded upon this. This is a special form in the development of the productive powers of labor, in such a way that these powers appear as self-dependent powers of capital lording it over labor and standing in direct opposition to the laborer's own development. Production which has for its incentive value and surplus-value implies, as we have shown in the course of our analyses, the perpetually effective tendency to reduce the labor necessary for the production of a commodity, in other words, to reduce its value, below the prevailing social average. The effort to reduce the cost price to its minimum becomes the strongest lever for the raising of the social productivity of labor, which, however, appears under these conditions as a continual increase of the productive power of capital.
VII.LI.15

The authority assumed by the capitalist by his personification of capital in the direct process of production, the social function performed by him in his capacity as a manager and ruler of production, is essentially different from the authority exercised upon the basis of production by means of slaves, serfs, etc.
VII.LI.16

Upon the basis of capitalist production, the social character of their production impresses itself upon the mass of direct producers as a strictly regulating authority and as a social mechanism of the labor process graduated into a complete hierarchy. This authority is vested in its bearers only as a personification of the requirements of labor standing above the laborer. It is not vested in them in their capacity as political or theoretical rulers, in the way that it used to be under former modes of production. Among the bearers of this authority, on the other hand, the capitalists themselves, complete anarchy reigns, since they face each other only as owners of commodities, while the social interrelations of production manifest themselves to these capitalists only as an overwhelming natural law, which curbs their individual license.
VII.LI.17

It is only because labor is presumed as wage labor, and the means of production in the form of capital, only on account of this specific social form of these two essential agencies in production, that a part of the value (product) presents itself as surplus-value and this surplus-value as profit (rent), as a gain of the capitalists, as additional available wealth belonging to the capitalist. But only because they present themselves as his profit, do the additional means of production, which are intended for the expansion of reproduction, and which form a part of this profit, present themselves as new additional

capital, and only for this reason does the expansion of the process of reproduction present itself as a process of capitalist accumulation.
VII.LI.18

Although the form of labor, as wage labor, determines the shape of the entire process and the specific mode of production itself, it is not wage labor which determines value. In the determination of value the question turns around social labor time in general, about that quantity of labor, which society in general has at its disposal, and the relative absorption of which by the various products determines, as it were, their respective social weights. The definite form, in which the social labor time enforces itself in the determination of the value of commodities, is indeed connected with the wage form of labor and with the corresponding form of the means of production as capital, inasmuch as the production of commodities becomes the general form of production only upon this basis.
VII.LI.19

Now let us consider the so-called conditions of distribution themselves. Wages are conditioned upon wage labor, profit upon capital. These definite forms of distribution have for their prerequisites definite social characters on the part of the conditions of production, and definite social relations of the agents in production. The definite condition of distribution, therefore, is merely the expression of the historically determined condition of production.

VII.LI.20

And now let us take profit. This definite form of surplus-value is a prerequisite for the new creation of means of production by means of capitalist production. It is a relation which dominates reproduction, although it seems to the individual capitalist as though he could consume his entire profit as his revenue. But he meets barriers which hamper him even in the form of insurance and reserve funds, laws of competition, etc. These demonstrate to him by practice that profit is not a mere category in the distribution of the product for individual consumption. Furthermore, the entire process of capitalist production is regulated by the prices of products. But the regulating prices of production are in their turn regulated by the equalization of the rate of profit and by the distribution of capital among the various social spheres of production in correspondence with this equalization. Profit, then, appears here as the main factor, not of the distribution of products, but of their production itself, as a part in the distribution of capitals and of labor among the various spheres of production. The division of profit into profit of enterprise and interest appears as the distribution of the same revenue. But it arises primarily from the development of capital in its capacity as a self-expanding value, creating surplus-value, it arises from this definite social form of the prevailing process of production. It develops credit and credit institutions out of itself, and with them the shape of production. In

interest, etc., the alleged forms of distribution enter as determining elements of production into the price.
VII.LI.21

Ground-rent might seem to be a mere form of distribution, because private land as such does not perform any, or at least no normal, function in the process of production itself. But the fact that, first, rent is limited to the excess above the average profit, and, secondly, that the landlord is depressed by the ruler and manager of the process of production and of the entire social life's process to the position of a mere holder of land for rent, a usurer in land and collector of rent, is a specific historical result of the capitalist mode of production. The fact that the earth received the form of private property is a historical requirement for this mode of production. The fact that private ownership of land assumes forms, which permit the capitalist mode of production in agriculture, is a product of the specific character of this mode of production. The income of the landlord may be called rent, even under other forms of society. But it differs essentially from the rent as it appears under the capitalist mode of production.
VII.LI.22

The so-called conditions of distribution, then, correspond to and arise from historically defined and specifically social forms of the process of production and of conditions, into which human beings enter in the

process by which they reproduce their lives. The historical character of these conditions of distribution is the same as that of the conditions of production, one side of which they express. Capitalist distribution differs from those forms of distribution, which arise from other modes of production, and every mode of distribution disappears with the peculiar mode of production, from which it arose and to which it belongs.
VII.LI.23

The conception, which regards only the conditions of distribution historically, but not the conditions of production, is, on the one hand, merely an idea begotten by the incipient, but still handicapped, critique of bourgeois economy. On the other hand it rests upon a misconception, an identification of the process of social production with the simple labor process, such as might be performed by any abnormally situated human being without any social assistance. To the extent that the labor process is a simple process between man and nature, its simple elements remain the same in all social forms of development. But every definite historical form of this process develops more and more its material foundations and social forms. Whenever a certain maturity is reached, one definite social form is discarded and displaced by a higher one. The time for the coming of such a crisis is announced by the depth and breadth of the contradictions and antagonisms, which separate the conditions of distribution, and with them the definite historical form of the

corresponding conditions of production, from the productive forces, the productivity, and development of their agencies. A conflict then arises between the material development of production and its social form.*154

Notes for this chapter

153.
J. Stuart Mill: Some Unsettled Questions in Political Economy, London, 1884.
154.
See the work on Competition and Co-operation (1832?).

Part VII,

Volume III Chapter LII. THE CLASSES.

VII.LII.1

THE owners of mere labor-power, the owners of capital, and the landlords, whose respective sources of income are wages, profit and ground-rent, in other words, wage laborers, capitalists and landlords, form the three great classes of modern society resting upon the capitalist mode of production.
VII.LII.2

In England, modern society is indisputably developed most highly and classically in its economic structure. Nevertheless the stratification of classes does not appear in its pure form, even there. Middle and transition stages obliterate even here all definite boundaries, although much less in the rural districts than in the cities. However, this is immaterial for our analysis. We have seen that the continual tendency and law of development of capitalist production is to separate the means of production more and more from labor, and to concentrate the scattered means of production more and more in large groups, thereby transforming labor into wage labor and the means of production into capital. In keeping with this tendency we have, on the other hand, the independent separation of private land from capital and labor,*155 or the transformation of all property in land into a form of landed property corresponding to the capitalist mode of production.

VII.LII.3

The first question to be answered is this: What constitutes a class? And this follows naturally from another question, namely: What constitutes wage laborers, capitalists and landlords into three great social classes?

VII.LII.4

At first glance it might seem that the identity of their revenues and their sources of revenue does that. They are three great social groups, whose component elements, the individuals forming them, live on wages, profit and ground-rent, or by the utilization of their labor-power, their capital, and their private land.
VII.LII.5

However, from this point of view physicians and officials would also form two classes, for they belong to the two distinct social groups, and the revenues of their members flow from the same common source. The same would also be true of the infinite dissipation of interests and positions created by the social division of labor among laborers, capitalists and landlords. For instance, the landlords are divided into owners of vineyards, farms, forests, mines, fisheries.

Notes for this chapter

155.
F. List remarks correctly: "Prevalence of self-management in the case of large estates proves only a lack of civilization, of means of communication, of home industries and rich cities. For this reason it is found everywhere in Russia, Poland, Hungary, Mecklenburg. Formerly it prevailed also in England. But with the rise of commerce and industry came their division into medium-sized farms and their occupancy by

tenants." (The Agrarian Constitution, the Petty Farm, and Emigration, 1842, p. 10.)

The End.